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U.S. Congress. Senate.

Industrial savings bill

Washington

1919

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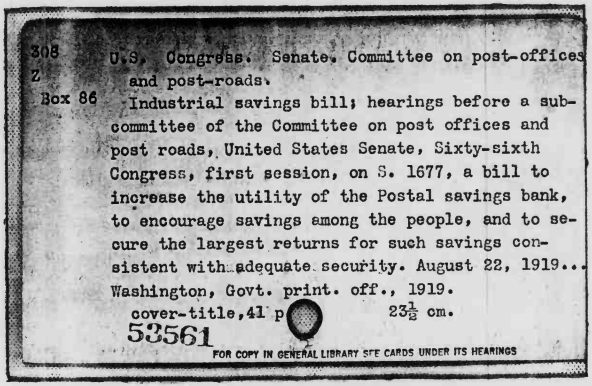
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INDUSTRIAL SAVINGS BILL

HEARING

NOV 20 1919

BEFORE A

SUBCOMMITTEE OF THE
COMMITTEE ON POST OFFICES AND POST ROADS
UNITED STATES SENATE

SIXTY-SIXTH CONGRESS
FIRST SESSION

ON

S. 1677

A BILL TO INCREASE THE UTILITY OF THE POSTAL SAVINGS BANK, TO ENCOURAGE SAVINGS AMONG THE PEOPLE, AND TO SECURE THE LARGEST RETURNS FOR SUCH SAVINGS CONSISTENT WITH ADEQUATE SECURITY

AUGUST 22, 1919

Printed for the use of the Committee on Post Offices and Post Roads

WASHINGTON
GOVERNMENT PRINTING OFFICE
1919

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EDWARD J. GAY.	NATHANIEL B. DIAL.

INDUSTRIAL SAVINGS BILL.

FRIDAY, AUGUST 22, 1919.

UNITED STATES SENATE,
SUBCOMMITTEE ON POST OFFICES AND POST ROADS,
Washington, D. C.

The subcommittee met, pursuant to call, at 10 o'clock a. m., to the committee room, Capitol, Senator Thomas Sterling, presiding.

Present: Senators Sterling, Gay, Walsh of Massachusetts, and Dial.

Present also Hon. Morris Sheppard, United States Senator from Texas.

Present also, John B. Alden, Esq., of Neshanic, N. J.

Senator STERLING. Gentlemen of the committee, Senator Edge, who is chairman of this subcommittee to consider the bill (S. 1677) to increase the utility of the postal savings bank, to encourage savings among the people, and to secure the largest returns for such savings consistent with adequate security, was unexpectedly called from the city and requested me to preside at the meeting of the subcommittee called for this hour.

(The bill is here printed in full:)

S. 1677. A BILL To increase the utility of the postal savings bank, to encourage savings among the people, and to secure the largest returns for such savings consistent with adequate security.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this act shall be the industrial savings act.

SEC. 2. That all the members of the President's Cabinet shall, ex officio, constitute a board of trustees for the administration of this act, hereinafter to be referred to as the Industrial Savings Board.

SEC. 3. That for the proper and efficient organization and conduct of the business of the Industrial Savings Board, it shall appoint under the rules of the Civil Service Commission a first chief, a second chief, and a third chief, having such powers and duties as the board may designate; also such other assistants, attorneys, and other employees as the board may consider necessary. The compensation of the persons so appointed and other expenses of operation under this act shall be such as the Industrial Savings Board may authorize, and shall be paid from the profits of the postal savings bank.

SEC. 4. That the Industrial Savings Board shall, as soon as possible, take over the control of the existing postal saving bank, the details of its administration to continue in connection with the post offices throughout the country, under the direct supervision of the Postmaster General acting for the board.

SEC. 5. That as soon as arrangements can be made therefor, every post office, postmaster, and all letter carriers and other post-office employees shall hereafter be made to serve the people through the postal savings bank as they now serve them for letters, money orders, registered letters, and parcel post, without limitation as to amount of deposits, as letters and parcels are without limitation, the manner of such service being as in this act provided, and all limitations on the amount of deposits in the postal savings bank are hereby removed.

SEC. 6. That postmasters and other employees in the service of the postal savings bank at the time of the transfer of said bank to the Industrial Savings Board shall continue in office until it is found from experience that any one of them is inefficient;

when such employee may be removed according to rules and regulations which the board shall establish, with the approval of the Civil Service Commission, and the successors of those who may be removed shall be appointed under the rules of the Civil Service Commission.

SEC. 7. That of the funds which are now or may hereafter be deposited in the postal savings bank not to exceed 25 per centum of the balance of deposits at any time may, in the discretion of the Industrial Savings Board, be invested in the bonds of the United States, bought in the open market at the lowest obtainable price or bought at such price from the Treasurer of the United States. Any portion of said bonds may in the discretion of the board, be sold in the open market at the highest obtainable price or sold to the United States Treasury at such price. In times of war the bond investment specified may be increased in any amount up to 90 per centum of the balance of deposits, and the rate of interest on bonds increased to 4 per centum, or in the discretion of the Industrial Savings Board.

SEC. 8. That no other investment of the funds deposited shall be made, but, with the exception of a working reserve, the amount of which shall be determined by the Industrial Savings Board, the balance of the funds shall be loaned at the highest obtainable rate of interest not exceeding 5 per centum per annum on what, in the discretion of the Industrial Savings Board, is considered as adequate security, in manner as follows and as in this act further provided:

(a) Preference shall be given:

(1) To small loans over large loans.

(2) To short-time loans over long-time loans.

(3) Loans adequately secured by readily marketable collateral over loans on real estate or other less readily marketable security.

(b) In accordance with the above, the board shall, from time to time, fix the rate of interest to be charged according to the supply of and demand for loanable funds, the profit and security of the depositors being the basis of decision.

(c) The borrower shall always be required to protect the market value of his collateral, as is customary with other banks making similar loans, either reducing the loan, or providing additional security in case of falling market.

SEC. 9. That the Industrial Savings Board shall give clear and ample publicity to its rulings as to character of securities required for loans and the terms of such loans under the following limitations:

(a) Loans not to exceed 95 per centum of the market value of United States bonds or the bonds of States.

(b) Not to exceed 90 per centum of the market value of such other securities as are now admissible investments under the existing laws of New York or Massachusetts for savings banks, or as are estimated by the Industrial Savings Board as of equivalent good standing.

(c) Not to exceed 85 per centum of the market value of wheat, cotton, or other nonperishable products, so called, in safe, adequately insured public storage, under regulations as the board may prescribe.

(d) Loans against marketable collateral shall be made at any bank of issue and redemption provided for under section 15 of this act, in accordance with rules and regulations made by the Industrial Savings Board.

SEC. 10. That not to exceed 50 per centum of the deposits in hand at any time may be loaned for such length of time as the Industrial Savings Board may specify in its regulations, and with or without amortization payments, as the borrower may prefer, to an amount not to exceed one-half the appraised value, on unencumbered real estate in States and Territories where laws for the protection of creditors are by the Industrial Savings Board deemed adequate and fair, in manner as follows:

(a) Through any national bank, or other incorporated bank, or corporation whose business is dealing in or guaranteeing real-estate mortgages and which is subject to the examination and control of the United States Treasury or of the banking department of any State which in the estimation of the Industrial Savings Board adequately protects depositors, loans may be made to an amount at one time outstanding not to exceed ten times the capital and surplus of the bank or corporation, which shall be required to guarantee the prompt payment of the principal and interest of the loans made through said bank or corporation.

(b) The bank or corporation shall be entitled to a commission of 5 per centum of the interest paid on such loan by the borrower, or such less per centum as the board may prescribe, who shall not be subject to any other charge except the necessary expense of examination of title and drawing papers, which charge may be fixed by rules of the Industrial Savings Board, all terms and commissions to be uniform throughout the United States.

SEC. 11. That personal loans without requirement of collateral security by the postal savings bank may be made in manner as follows:

(a) The borrower to make written statement showing his assets and liabilities; the amount of loan, not to exceed $1,000; the length of time, which shall not exceed one year; the purpose for which the loan is to be used, which shall be in accordance with the stated purpose of this act, which statement shall be attached to the borrower's negotiable note.

(b) The principal and interest of the loan to be guaranteed prompt payment by a bank or corporation, as in section 10 of this act, which shall be entitled to a commission of 5 per centum of the interest paid thereon, or less, as the board may direct, the borrower being subject to no other charge, and the total of such loans at one time outstanding not to exceed five times the capital and surplus of the guarantor.

(c) The limit of the loans specified in (a) of this section, if after two years' trial is deemed too small for the best results, may be extended by the board from time to time to larger specified sums, the terms to be uniform throughout the United States.

SEC. 12. That to induce the largest possible savings and serve the greatest possible convenience, security, and economy of use to depositors and to the postal savings bank, the Industrial Savings Board shall cause to be prepared and issued certificates of deposit of the size and form, but different in color and appearance, of customary bank currency, the said certificates being of the following tenor and in manner indicated:

(a) Issued:

Year : January, February, March, April, May, June, July, August, September, October, November, December.

Day: 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31.

The United States postal savings bank has received from (here the depositor will write his signature or not, as he pleases) $10 (or other specified sum) and will pay the same, together with all net interest earned hereon, the interest compounded semiannually, on surrender hereof properly indorsed. If no signature is written, payment shall be to bearer. Interest shall begin on the first day of the month following that indicated by cancellations in the margin, and shall terminate the last day of the month preceding payment, also shall terminate five years after date of issue, but any certificate may at any time be surrendered in exchange for a new issue of current date.

Issued and payable at Washington, District of Columbia, but procurable or cashable through any post office or authorized bank.

(b) Certificates in this form shall be issued in denominations of $1, $2, $5, $10, $50, $100, $1,000, and larger, as the Industrial Savings Board may order.

(c) Certificates similar, but bearing no interest, shall be issued in denominations of $1, $2, $5, and $10.

(d) To encourage the beginning of deposits, and also serve the convenience of those who desire them in preference to coin money, certificates payable to bearer, without interest, shall also be issued in denominations of 5 cents, 10 cents, 25 cents, and 50 cents, of size and form similar to United States fractional currency issued in 1862 and later.

(e) An additional form of certificate of deposit of similar purport to (a) shall be a registered certificate, issued in multiples of $100, the principal payable at any time on surrender, properly indorsed, the interest to be remitted semiannually, all details, including manner of registration, being according to regulations of the Industrial Savings Board.

(f) Simple printed instructions for their use may appear on the front or back of each of the various certificates.

(g) These cerificates shall not be legal tender nor in any way indicated as "money," but may pass from hand to hand by mutual agreement as is done in the case of "certified" or other bank checks.

(h) Checking accounts may also be permitted by depositors who carry an average balance over $500 at cities designated and in accordance with regulations made by Industrial Savings Board, interest on daily balances to be paid on such accounts semiannually.

SEC. 13. That the Secretary of the Treasury is authorized hereafter to deposit any money in the Treasury, in the postal savings bank (without requiring security therefor) as he does in other banks of deposit, and shall, so far as practicable to do so, make disbursements from the Treasury in the form of certificates of deposit in the postal savings bank, provided this method is acceptable to payee.

SEC. 14. That all banks in the United States may hereafter deposit their funds in the postal savings bank, and certificates of deposit issued therefor may be counted as part of their legal reserve.

SEC. 15. That at the county seat of every county in the United States, or similar civil divisions otherwise called, and in such other cities as the Industrial Savings Board may select, post offices shall be designated by the Industrial Savings Board as postal savings banks of issue and redemption.

(a) Such bank of issue and redemption shall issue and record as required by the Industrial Savings Board certificates of deposit as described in section 12 hereof, in exchange for bankable funds as per regulations made by said board, and may redeem the same, whether issued by itself or by other similar banks of issue and redemption, either in money or in new certificates of deposit, as the applicant may desire.

(b) Each depositor in said banks shall record his signature and address in duplicate with the bank on a record provided, as is customary in commercial banks, so that indorsement of signatures on banks of certificates may be verified when desired.

(c) These banks of issue and redemption shall supply minor post offices in their region, and letter carriers, with facilities for serving all who desire to do business with the postal savings bank, requiring such security as may be necessary from those handling the funds of the bank or its patrons.

SEC. 16. That the Industrial Savings Board shall designate twelve or more districts covering the United States in a central city of each of which it shall cause to be organized a district bank which shall act as clearing and reserve banks for all the banks of issue and redemption within the district, in accordance with rules and regulations of the Industrial Savings Board.

SEC. 17. That the Industrial Savings Board shall further cause to be organized in the city of Washington, District of Columbia, in the Post Office Department, a national central postal savings bank, which shall act as clearing and reserve bank for the twelve district banks, and may have direct dealings with and oversight of all the county banks of issue and redemption as the Industrial Savings Board shall order.

SEC. 18. That every smaller post office and every letter carrier may, in accordance with regulations made by the Industrial Savings Board (adequate bonds for safety being required as convenient) keep in hand limited amounts of certificates of deposit, secured from the local county banks of issue and redemption, to be given to known applicants in exchange for bankable funds to be forwarded to the county bank of issue and redemption, and may also redeem small certificates of deposit as they can conveniently. Such post offices and letter carriers shall also give proper receipts to any applicant for bankable funds or for certificates of deposit, to be sent to the county bank of issue and redemption to be exchanged for money or other certificates of deposit, and deliver the same to said applicant in exchange for their own receipt originally given to the applicant.

SEC. 19. That each county bank of issue and redemption and each district bank shall keep in hand such working balance as the Industrial Savings Board shall direct, the county banks forwarding any surplus to its district bank, and the district bank any surplus to the national central bank, and each of said banks shall make loans as authorized by the Industrial Savings Board, the county bank drawing for funds when deemed necessary on its district bank and the district bank drawing on the national central bank as the Industrial Savings Board may direct.

SEC. 20. That existing savings and other banks in the United States which desire and will submit to satisfactory examination and supervision of the Industrial Savings Board and are found of standing satisfactory to the board, may be made agents of the postal savings bank, to receive depoaits and pay certificates in accordance with regulations made by the board, and shall be allowed as compensation for such service a commission to be authorized by the board and not to exceed 5 per centum of the net earnings of the deposits, for which registered certificates (only) are issued, which said existing bank secures through its agency, such commissions to be uniform throughout the United States.

SEC. 21. That in lieu of the principal of amortization (which may be applied when the borrower desires) loans secured by real estate or other collateral may be made as follows:

The mortgage or other paper shall be drawn to secure any sum due from the borrower not exceeding the amount named therein for any time not longer than the longest time therein specified, the borrower thus being permitted to adjust the amount of his loan from time to time according to his needs and opportunities.

SEC. 22. That the Industrial Savings Board shall test the safety and practicability of making small and short-time loans to farmers and other producers in manner as follows, and in accordance with such other regulations as may be extended to many or all other counties.

(a) After the total balance of deposits in the postal savings bank shall have reached the sum of not less than $1,000,000,000.

(b) The board shall select not to exceed ten counties in various parts of the United States to make trial for a period of not less than one year, after which time, if in the opinion of the board the plan is successful, the method may be extended to many or all other counties.

(c) All persons desiring to borrow, without collateral security, any sum not to exceed $500 for a time not to exceed one year, each shall make a statement showing the amount of his assets and liabilities with their nature, in form and manner specified by the board, the amount of the loan desired, its length of time, and the purpose for which it is to be used, in accordance with this act, which statement shall be attached to the applicant's negotiable note.

(d) These applications shall be referred for approval or rejection to a committee of three persons elected by the applicants for such loans within the county, and also to a committee of three persons elected by the depositors in the postal savings bank within the county holding registered certificates in manner provided as follows: Loans to be allowed must be approved by not less than two-thirds of the weight of vote of each committee and also approved by one or more experts appointed by the Industrial Savings Board.

(e) The two said committees to be elected in manner as follows: The postmaster to prepare printed ballots and send the same with return envelope to each applicant for loan, and to each depositor in the county bank of issue and redemption having then, and three months previously, outstanding registered certificates of deposit. Each such elector, applicant, or depositor, shall be entitled to three votes, which he may cast for three, two, or one person or persons of his choice. The person or persons so chosen, each having weight of vote according to the number of votes by which he is chosen, shall upon notice of the postmaster meet and choose three of their number to act as the committee, such electors balloting repeatedly as may be necessary to reduce the number to three. The committee having been thus elected, each member shall have weight of vote according to the cumulative number of votes by which he is chosen.

(f) The members of the committee chosen shall have compensation for services in passing on loans at the rate of 20 cents an hour, the time to be approved by the county seat postmaster.

(g) Applicants whose loans are accepted shall give the bank negotiable notes for the amounts and time approved, the same to be discounted by the bank at 10 per cent per annum, the applicant being given the proceeds less his pro rata of all expense of passing on the loans. After the end of one year, when all of the loans shall have matured, any profits to the bank on the total of the loans in excess of 5 per cent per annum shall be paid as provided by the board in rebate to those whose loans shall have been promptly and fully paid, so that the net cost of the loan to the borrower may possibly be reduced to approximately the same as the interest rate on secured loans.

(h) If after ample test such method of loaning is found safe and profitable the amount to be loaned to each applicant may be increased beyond $500, the increase to be uniform throughout the United States and not to exceed $1,000. If some counties prove to be habitually unprofitable while other counties prove habitually profitable, the board may withhold, temporarily, or longer, permission to make such loans from the unprofitable counties.

SEC. 23. That commercial and savings banks may make deposits in and draw upon county banks of issue and redemption to such extent as such county banks may be able conveniently to serve them, but may, without limitation, deal direct with the district banks and national central bank as per regulations of industrial savings board, and certificates of deposit in the postal savings bank may be counted as part of the legal reserve of all depositing banks.

SEC. 24. That the board shall cause to be prepared and printed for the general public simple tables showing the value of $10 or larger sums of compounded interest for days, months, and years at various rates of interest, such as will be useful to depositors.

SEC. 25. That needless and expensive records and statistics shall be avoided, but the board shall provide for such as may materially serve the interests of depositors and enable the board to annually report to Congress such information and recommendations as may be of service to Congress.

SEC. 26. That to the extent that the mails shall be used in facilitating the business of the postal savings bank, either by the bank itself or by its patrons, the board shall provide special stamps for free use of the mails, keeping records so that approximately the actual cost o such postal service shall be paid by the postal savings bank to the Post Office Department.

SEC. 27. That the sum of $1,000,000 is hereby appropriated for any necessary expense, in the dis retion of the board, in the rapid development of the postal savings bank, the sum used to be considered only as an advance and to be repaid to the Treas-

ury, with interest thereon at 3 per centum per annum from the profits of the postal savings bank, which is to be made self-sustaining without subsidy or other charge against taxpayers.

SEC. 28. That all provisions of an act to establish postal savings, and so forth, approved June 25, 1910, and of amendments thereto not inconsistent with the present act shall continue in force, and all other provisions are hereby modified or repealed, as are all other acts of Congress inconsistent herewith.

SEC. 29. That to the extent that certificates of deposit in postal savings banks crowd out of use forms of paper money now in use, causing the depreciation of the market price of bonds of the United States used to secure their circulation, below par, the Treasurer of the United States shall purchase or redeem such bonds at par issuing, so far as may be necessary to do so, other bonds of the United States bearing higher rate of interest and marketable at or above par.

Senator STERLING. The author of the bill, Senator Sheppard, is present now, and we shall be glad to hear from him.

Senator SHEPPARD. Mr. Chairman, I desire to present Mr. John B. Alden, of Neshanic, N. J., who has conceived the plan and principle involved in this bill.

Senator STERLING. Shall we hear from you first, Senator Sheppard?

Senator SHEPPARD. I will at least begin the discussion of the bill, with the permission of the committee. In the first place, I desire to thank the committee for its courtesy in offering us this hearing.

The bill which we have asked you to consider is S. 1677, to increase the utility of the postal savings bank, to encourage savings among the people, and to secure the largest returns for such savings consistent with adequate security. The title expresses with accuracy the principal object of the measure. We think that an agency like the postal savings bank ought to be utilized to the largest extent possible where it can be utilized consistently with the principles of sound business dealings.

The object of the bill, furthermore, is to establish an independent reservoir of capital that will be available for the commerce of the country on equal terms and practically at cost to banks as well as individuals. At the present time nearly $2,000,000,000 are scattered around the country in the hiding places, in the pockets of the people, in hidden receptacles, bureau drawers, etc., not mobilized by our present banking system, admirable as it is. As the members of the committee know, every dollar that is deposited in a bank, through the machinery of that bank is put into the commerce of the country and adds that much to the development of the country. At the present time nearly $2,000,000,000 are lying idle because outside of the banks.

Senator STERLING. How do you arrive at those figures?

Senator SHEPPARD. By the report of the Comptroller of the Currency. The report of the Comptroller of the Currency shows the amount of money in the country and also shows the amount of money in the banks and the trust companies. In that way we are enabled to arrive at the exact figures as to the amount of money not yet mobilized by the banks.

Senator DIAL. Necessarily there will be a great deal of money in the country not in banks.

Senator SHEPPARD. Yes; there has been before, but the banks are anxious to get all that money into the channels of business.

Senator DIAL. Naturally there is a great deal of money in the pockets of the people, necessarily used in the transaction of their small personal or business expenses.

Senator SHEPPARD. The great volume of business of the country is done by checks. So far as actual money is concerned, as the members of the committee know, it is very limited in comparison with the total volume of credits and business. This large amount of money of which I speak is in the hiding places mostly.

Senator STERLING. Would you say, then, that $2,000,000,000 were hoarded outside of the banks?

Senator SHEPPARD. Why, yes; that is the fact, and really it is a reflection on our system of finance that we have not been able to develop the means of utilizing that money and mobilizing it for the benefit of the country.

I want to call attention to this further fact, that the postal savings bank, as it now exists, has mobilized about $130,000,000 or $140,000,000 of money which never would have reached the ordinary banks.

Is that about the correct amount?

Mr. ALDEN. It is about $140,000,000 now.

Senator SHEPPARD. The postal bank at present pays only 2 per cent on the money; it lets the banks have it for 2½ per cent, and the banks then lend it at anywhere from 8 to 10 or 12 per cent. These people whose money is deposited in the postal savings bank are entitled to the rates of interest which that money would earn on safe security. Mutual savings banks of Massachusetts and New York, for instance, earn about 4 per cent, and they earn it on absolutely safe securities. They earn it on securities defined by the laws governing those banks.

Senator GAY. Are those loans guaranteed?

Senator SHEPPARD. Under the laws of Massachusetts, New York, and other States that have these savings bank systems, the securities upon which the money shall be loaned are prescribed, for instance, Government bonds and, in Massachusetts, the bonds of certain railroads, I believe. Am I correct in that, Mr. Alden?

Mr. ALDEN. I am not very familiar with the details.

Senator SHEPPARD. At any rate, that is the principle. My idea is that it is perfectly safe to prescribe securities by law, as is done in Massachusetts, and yet get a return of 4 per cent. As it is now, money in postal savings banks never brings more than 2 per cent, so far as the depositors are concerned.

Senator WALSH. Do they loan on real estate?

Senator SHEPPARD. Yes; that is prescribed as within the law.

Senator WALSH. The rate of interest is much more than 4 per cent to the banks?

Senator SHEPPARD. Exactly; and that simply emphasizes my position.

Senator WALSH. Are they limited with reference to the kind of securities in which they can invest?

Senator SHEPPARD. That is the point I am making, exactly, that it is possible by law to define securities upon which money can be loaned, so it will be an automatic proposition and so there will be no danger in so far as repayment of the loans is concerned, and yet obtain for the people twice the interest that they are now getting. We say it is unfair to this great Government to allow banks to have that money by putting up securities when nobody else can put up th same security and get the money.

Sena or DIAL. Would it not be unfair to the banking business? Would it not interfere with the banking business a great deal?

Senator SHEPPARD. It would not, for this reason: Banks themselves have not been able to reach this money at all. People who have the money outside of the banks now fear the banks.

Senator DIAL. Would this encourage people to take money out of the banks and put it into postal savings banks?

Senator SHEPPARD. The man who puts his money into the banks for commercial purposes is generally getting more on that money than he would get if it were deposited in the savings bank.

Senator STERLING. There can be no real occasion for fear of the banks now, can there?

Senator SHEPPARD. No; I do not see how there can be; nevertheless, many people fear them.

Senator STERLING. Under present conditions it seems to me there should be no fear.

Senator SHEPPARD. That is true, but you notice we establish or propose to establish this postal savings bank mainly to get money that would not reach the ordinary bank under ordinary circumstances. People from other countries who have been accustomed to depositing their money with the Government would not put the money in private banks. There was a bank failure in Pennsylvania just the other day which, among the people, would tend to establish a fear and distrust of the private banking system in that whole section. The result is that many people withhold their small amounts. Then, again, a man with a small amount of money does not feel welcome in a big bank. The larger banks do not encourage small deposits. You have to present credentials to become depositors, for example, in the National City Bank. You have to show you are a proper person before they will even accept your money.

Senator DIAL. We have the postal savings bank, we have the national banks, we have the State banks, and we have the land loan banks, and we now have Government bonds. We have those Government bonds in small denominations so that the individual may buy them, and they are much more popular now than they used to be. The question arises in my mind whether we have not about enough institutions for the deposit of the money of the people of the country.

Senator SHEPPARD. The answer to that is that there is still about two billions of dollars which the banks do not reach.

Senator DIAL. There is, of course, a considerable amount in the pockets of the people. I have a little in my own pocket right now. Everyone is obliged to carry a little cash about his person for personal and incidental expenses.

Senator SHEPPARD. That is true, but that is not a drop in the bucket; 95 per cent of the business of the country is done with checks.

Senator DIAL. I understand that, too. I check right sharply myself.

Senator SHEPPARD. I have no doubt you do. The actual money that you handle would probably not be one-tenth of 1 per cent of your entire financial transactions.

Further, let me add right here that we provide a system in this proposed bill by which a man's money can be put in the bank and a system of checks established, by which the checks are used instead of the money. We think that is an additional convenience which we will come to later in the discussion of the bill, although we do not require it as essential to the system.

Senator DIAL. The problem is, of course, to get the money out of the pockets, into the banks, and into circulation, get it from under the hearth and out of the stocking and out of the old teapot. That is essential, of course. The question is, whether the plan proposed in this bill is the right one. I am, however, open to conviction. I am a president of a bank and have been in the banking business all my life and am interested in them. A question in my mind is whether this will not tend to hurt the banks. Have not the banks done, and are they not doing, and will they not do a tremendous amount of gratuitous work for the Government? For instance, in the placing of these Liberty bonds in the last few years we have had one man out of my little institution, small as we are up there in the country, who gives all his time to attending to the matter of these Liberty and Victory bonds. We are taking care of those without any charge.

Senator SHEPPARD. The answer to that is that the people that this postal savings bank will reach are people who will not, as a rule, deal with the commercial banks throughout the country, especially in the cities.

Senator DIAL. It might be in cities, but I do not think that would apply in the country. There we know the people personally, we come into close personal contact with them, while in the cities they do not. In the larger cities you may not know your men at all.

Senator SHEPPARD. The personal element is another reason why they would not go to the postal savings bank. Many of them would still continue to do business with you or with the small country banker. It would be the element which you do not reach personally that would deal with the Government, because they have unlimited confidence in the Government.

Senator DIAL. I do not believe in the Government going into any business which it is the province of the citizen to conduct, and who can conduct it just as well as the Government and just as economically. We had a failure in my own home town when I was a boy, which I can just remember, that shook the confidence of the older people and some of them have never gotten over it yet. We had a hard time with the banks down there after that time. What I am afraid of is that there are too many enterprises or too many places to deposit money, and stock in the banks will grow less remunerative.

Senator SHEPPARD. We already have this system to the extent of $140,000,000, and that $140,000,000 has not interfered with the banks. This system provides the banks a means for the utilization of this money as well as anybody else. It would give them more money to handle. Mr. Alden has figured it out to show that the bank would have more money by virtue of having this independent reservoir to draw on instead of having to appeal sometimes to commercial centers or to private institutions of the commercial center for funds with which to operate and having to meet their terms. This gives them an independent reservoir to draw on and would serve as a check against high rates of interest.

Senator STERLING. Your idea is that the depositor will get a larger rate of interest?

Senator SHEPPARD. That is true also. He gets 2 per cent now.

Senator STERLING. The postal saving bank places it with the banks at 2½ per cent, and your claim is that the banks will get 6 or 7, or ev 8 to 10 per cent?

Senator SHEPPARD. Yes; and that is the unfairness of the present system.

Senator STERLING. What rate do you think the depositor will be able to receive?

Senator SHEPPARD. Mr. Alden has made quite a study of that proposition, and I would say at least 4 per cent.

Senator STERLING. You would have a billion and a half or two billions more money available for loans?

Senator SHEPPARD. That is true.

Senator STERLING. That would bring down the rate of interest a little, would it not?

Senator SHEPPARD. It would. It would regulate and stabilize it, but it would also increase the volume of business. I do not think it would affect profits at all.

Mr. ALDEN. When you reduced the price of calico from 25 cents to 5 cents a yard, did not the country prosper more—using that as an illustration?

Senator SHEPPARD. Let me say that on the basis of the deposits developed by countries that have this system, we could expect to have in our postal savings bank through this system and the multiplication of loans, which you understand how the banks handle, deposits of forty billions of dollars or more in this Government system.

Senator DIAL. I do not say it is not all right, but I am trying to find the necessity for it.

Senator SHEPPARD. I am very glad indeed that you are asking these questions, Senator Dial. I think the fundamental necessity for it is the fact that, magnificent as our banking system is, it has not mobilized the funds of the country that would otherwise be available for its business. The banks would enjoy just as much business and prosperity, because the bill provides that the banks shall have access to this money just as well as individuals by paying a small commission.

Senator GAY. Does there seem to be any demand for such an institution? Has the bill been pretty well discussed in various places throughout the country?

Mr. ALDEN. We can not get discussion. This hearing to-day is for the purpose of starting the discussion. We can not get it otherwise.

Senator GAY. Has there been any effort to prevent consideration of the proposed measure?

Mr. ALDEN. I have written papers continually, but they very seldom print anything.

Senator GAY. Do you judge from that that they are not in favor of such a plan?

Mr. ALDEN. I can not even find that they read it or consider it at all.

Senator GAY. Would this be a remunerative scheme for the Government of the United States? Would the Government benefit from it in any way?

Mr. ALDEN. We will reduce the rate of interest to the Government very materially. There is no reason at all, I think, why the Government should pay over 4 per cent for all the money it wants, and we undertake directly to get at least eight or ten billions of dollars at 3 per cent.

Senator GAY. Have you sounded any Government officials with reference to the bill? Not that they would control me at all, however——

Senator SHEPPARD (interposing). I think the bill was referred to the department, but I do not know whether their report is here or not.

Senator GAY. To which department do you refer?

Senator SHEPPARD. To the Post Office Department.

Senator STERLING. My attention has not been called to any report.

Senator SHEPPARD. A majority of the people to whom I have spoken of the plan and who have made a study of it have favored it.

Senator GAY. I am merely trying to find out what discussion there has been of the measure and whether or not it seems to meet the approval of the business people of the country.

Senator SHEPPARD. One of the leading business men in the country, a noted economist and financial writer, of whom you undoubtedly know, says it is based on sound principles and undoubtedly ought to be put in operation. He has not authorized me to use his name at this hearing.

Senator STERLING. Might it not be well at this point, for the benefit of the other members of the committee, to have Senator Sheppard or Mr. Alden give some outline of the bill?

Senator SHEPPARD. I think we are at that point now. If it meets with the approval of the committee, I will ask Mr. Alden to submit some general remarks upon the bill now.

Mr. ALDEN. I will offer just a few suggestions preliminary to the bill, and then take up the bill section by section and discuss it.

To get anywhere we must always start where we are—start with things as they are.

We now have a postal savings bank—we start with that.

Every other savings bank in the world makes the pretense, at least, of securing for depositors the largest practicable returns for their money, with adsolute security, and perfect availability. Uncle Sam's postal savings bank is shackled by the opposite rule—it attempts to get as much money as possible from depositors for the least interest possible.

Senator GAY. The rate now being paid is 2 per cent?

Mr. ALDEN. Yes; 2 per cent.

There were at one time about 700,000 depositors, almost entirely limited to poor, but provident, ignorant, timid foreigners—so limited by the fact that no intelligent American will deposit in the postal bank under present restrictions. They even had rulings originally, I do not know whether they keep them up now or not, under which a series of questions were presented to those seeking to become depositors. One of the first questions asked was "Have you a bank account anywhere?" If the response was "Yes," they would say "We do not admit you."

Senator STERLING. That is, the postal savings bank would say that?

Mr. ALDEN. Yes, that has been the case. Whether it is so now or not, I do not know. That was the ruling. That was not the law, but it was the ruling.

Senator STERLING. That seems unreasonable. I do not see how they could have authority under the law to make any such ruling or regulation as that.

Mr. ALDEN. It was there, nevertheless. I do not know whether it is there now or not. I think they have liberalized their methods now.

These 700,000 timid, ignorant depositors have placed about one hundred and forty millions of dollars in the postal bank, for which they get the ridiculous rate of 2 per cent interest. What is done with their money? Instead of giving Uncle Sam the benefit of the money, the benefit of the low 2 per cent, 95 per cent of the money is turned over to bankers for 2¼ per cent, and the bankers loan it to Uncle Sam for 4½, or loan it, possibly, to farmers or others for productive purposes at 6 per cent or more, plus commissions to somebody. Is this the square deal? Is this, if technically honest, honorable? Is it godly? Shall you and I "stand by consenting," like Saul at Stephen's stoning, while such wrong is done? And if a bank accepts the benefit of this 2 per cent money, does it not more than "hold the clothes of them that stoned," hold some of the contents of the clothes of them that are stoned? Do editors, who join the conspiracy of silence, speaking no word of protest, or of exposure of wrong, are they guilty of hush money in accepting financial advertising and keeping still? One hesitates to believe honorable bankers and editors consciously guilty. "They know not what they do," that voice from Golgotha is sad truth often applying.

And what about the wrong and the economic folly of excluding from any use of the postal savings bank the scores of millions of intelligent, thrifty, patriotic Americans by limiting interest to 2 per cent and by limiting the right to deposit at all more than a petty sum instead of inviting without limit, as commercial banks always do? Limit 2 per cent, when the market price for money is from twice to five times 2.

Senator STERLING. May not the depositor, on a time deposit of six months, get a much higher rate of interest than is paid by the Government? Do they not have that opportunity? Do not many banks pay all the way from 3 to 5 per cent on time deposits?

Mr. ALDEN. The national banks, as I understand, are limited to paying 3 per cent. Some of the savings banks pay 4 per cent. Your leading bank here in Washington, I notice, prominently advertises to pay only 3 per cent.

Senator STERLING. I do not understand how they can interpose a limit of 3 per cent.

Mr. ALDEN. I so understand it.

Senator STERLING. That is true, if I may judge from what I believe to be my own experience in a small way.

Mr. ALDEN. If they take time deposits, I am not sure about that. I think national banks are limited even then to 3 per cent.

Senator STERLING. I hardly think so.

Mr. ALDEN. I think our local national banks only pay 3 per cent.

Senator STERLING. I think I know of national banks that are paying 4 per cent on time deposits, six months being the limit.

Mr. ALDEN. I may be mistaken about that. But if people prefer to deposit with the postal savings bank, why have they not the right to prefer it?

Senator SHEPPARD. That would be no excuse for a national bank paying less than it should.

Senator STERLING. But it is a question of what is to the advantage of the depositor himself. That is the reason I ask the question whether he will not have an opportunity, as conditions are now, to get more than he gets from the Government by depositing with the postal savings bank?

Senator SHEPPARD. There are any number of people who prefer, even at low rates of interest, to deposit with the Government, and there are hundreds of people who will not deposit with the banks at all. It is strange, but it is true, as the report of the Comptroller of the Currency shows. It is a feature of human nature that we have to take into consideration.

Senator STERLING. It is a question whether that is not a rule of use, custom, or education, even on the part of the people. I think we may have observed this, that as people become acquainted with the banks and their methods of business and acquire confidence in them, there is more of a disposition to trust the banks and make deposits there.

Senator SHEPPARD. Yes; if you get them to deposit with a postal bank, they become familiar with banking transactions, lose the timidity they once had, and then probably will be more disposed to do business with the other banks.

Mr. ALDEN. We now propose a bill to amend the law relating to the postal savings bank, in the interest of justice to depositors; also in the interest of farmers and other small industrial borrowers of money, and in the interest of the Nation at large.

In the interest of depositors, of borrowers, of the Nation at large, is there any other, any special limited class, or favored few, whose interests shall dictate and distort the plan and purpose of the law of the postal savings bank? Patriotism says no.

Justice stupendously stimulates patriotism. Hyphenated depositors in and producing borrowers from an unshackled postal savings bank would be few, and quickly and automatically cured.

In the interest of depositors: The unshackled postal bank we are attempting to rebuild on a basis of mathematically exact justice. The first man to rightly claim justice from it and all concerned, is the man who has the money, the depositor, whether he has brought his hard-earned hoard of $10 or $1,000,000. He is inalienably entitled to get for the use of that money the most that anybody will give for it, with ample security, just as the farmer is entitled to get the same for his wheat or the workman for his labor.

In the interest of borrowers: The man who wants to borrow money has no rights in the case till he is able to offer satisfactory security; then the borrower who will give the most, whether he is banker, barber, butcher, or farmer, has the right to get it—the amount he will pay for its use is, presumably, the legitimate measure of his need or of his ability to use at high profit.

But, given a square deal to both depositor and borrower, no fear but in this rich nation there will be plenty of money to go round at a fair rate of interest—both better and fairer than either average man gets now.

Cheap money can never exist, as it is imagined by many, except as it is made cheap by some hocus pocus and injustice to somebody, in the end the taxpayer, which, ultimately, means more the man who labors than anybody else. The cheapest money possible will come about precisely as will cheap wheat or cheap shoes—by the producer's increasing ability to get larger crops for his labor. When we all get rich, or more of us, money will go begging for borrowers at a fraction of present rates of interest.

The tendency of interest is all the time to come down, not just this minute, but the ages through.

The justice for the farmer and all who labor we seek by way of an unshackled postal-savings bank is that he shall have the right and ability to borrow money as cheaply as anybody, even the banker, on equal security.

I got onto this whole thing by becoming interested in the rural credits problem, and something, I do not remember what, caused me to look into the postal-savings bank to see what it was, and I found that it offered the possible solution of the whole problem.

Senator DIAL. Could there not be an amendment to the present postal-savings bill which will cover this thing?

Senator SHEPPARD. That is what the proposed bill is intended to do.

Mr. ALDEN. I am coming to that just now. I will repeat my last statement.

The justice for the farmer, and all who labor, we seek is by way of an unshackled postal-savings bank, is that he shall have the right and ability to borrow money as cheaply as anybody, even the banker, on equal security.

Here is provided the square deal, so universally popular with patriotic Americans, free trade in finance, money, and credits, not special privilege to bankers, farmers, or any other class.

Senator STERLING. Speaking of farmers, would you expect that this would supplant the Federal farm loan bank system?

Mr. ALDEN. I do not think so. When we have unshackled the postal savings banks, the farm loan bank becomes a superfluity not entirely necessary. We had already entirely too many banks. They were not needed, but now that we have them, let us use them.

Senator STERLING. You do not believe in the principle of the Federal farm loan bank system?

Mr. ALDEN. I do not think that is the better way. I think an unshackled postal savings bank would demonstrate that they are superfluous. This would do their work much better and more cheaply.

Senator STERLING. I do not doubt that in certain sections the Federal farm loan bank system has proven of great value.

Mr. ALDEN. It is doing some good.

Senator STERLING. It has enabled the farmers to make loans without paying a commission.

Mr. ALDEN. They are doing perhaps from one-tenth to one-fiftieth of what they should do and what they will be able to do under this unshackled postal savings bank system.

Senator STERLING. My own State, in addition to having the benefits of the Federal farm loan system, has also a State rural credits system. I think it is the only State in the Union that has this, but the State system has largely taken the place of the Federal farm loan system and is doing the business really in the way of making loans to the farmers.

Mr. ALDEN. The following bill here, slightly amended, has already been presented to the Congress in two successive sessions, and Senator Sheppard has now introduced it the third time. As it is much broader in scope than was the original postal savings bank plan, it is given the title of "The industrial savings act." Section

by section, I will now take up for discussion: Sections 1 and 2 read as follows:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this act shall be the "Industrial savings act."

SEC. 2. That all the members of the President's Cabinet shall, ex officio, constitute a board of trustees for the administration of this act, hereinafter to be referred to as the Industrial Savings Board.

I read the sections of the bill themselves for the purpose of making clear the comments I have to offer.

Senator SHEPPARD. The present board consists of the Postmaster General, the Secretary of the Treasury, and the Attorney General.

Mr. ALDEN. Yes; that is true. Having reference to the membership of the board as now proposed, these officials broadly represent all the basic economic interests of the Nation. They are appointed by the President and confirmed by the Senate. They guide and shape the policy of the bank established by this bill within the very definite limits which it provides. They will not have time for the work in detail, but they will fashion general policies, choose and supervise competent heads and principal employees, who will do the work under the safe, businesslike rules of the Civil Service Commission.

SEC. 3. That for the proper and efficient organization and conduct of the business of the Industrial Savings Board, it shall appoint under the rules of the Civil Service Commission a first chief, a second chief, and a third chief, having such powers and duties as the board may designate; also such other assistants, attorneys, and other employees as the board may consider necessary. The compensation of the persons so appointed and other expenses of operation under this act shall be such as the Industrial Savings Board may authorize, and shall be paid from the profits of the postal savings bank.

This section takes the postal savings bank out of politics and provides that expense of operation shall be paid from the profits of the bank by depositors and borrowers, instead of being taken from the pockets of taxpayers by appropriations from the Treasury. The wisdom and fairness of this section would seem to be beyond question.

SEC. 4. That the Industrial Savings Board shall, as soon as possible, take over the control of the existing postal savings bank, the details of its administration to continue in connection with the post offices throughout the country, under the direct supervision of the Postmaster General acting for the board.

SEC. 5. That as soon as arrangements can be made therefor, every post office, postmaster, and all letter carriers and other post-office employees shall hereafter be made to serve the people through the postal savings bank as they now serve them for letters, money orders, registered letters, and parcel post, without limitation as to amount of deposits, as letters and parcels are without limitation, the manner of such service being as in this act provided, and all limitations on the amount of deposits in the postal savings bank are hereby removed.

Senator STERLING. I do not know that I quite understand one expression in that section. You say that "every post office, postmaster, and all letter carriers, and other post-office employees shall hereafter be made to serve the people through the postal savings bank as they now serve them for letters, money orders, registered letters, and parcel post, and so forth." Just exactly what do you mean by that?

Senator SHEPPARD. That is not expressed accurately. The idea is that letter carriers can accept these deposits from housewives or people out in the country and that this money will be placed in their

accounts by these post-office employees. If they can be sent in to the Government, people will be more likely to do it in that way, not having to go to town to do it. That is a matter of convenience for the people.

Senator DIAL. Would not that be a very dangerous proposition—to allow any letter carrier to receive money for deposit? Might there not arise a dispute between him and the depositor? What kind of a certificate of deposit would the depositor be given?

Senator SHEPPARD. He would have his receipt.

Mr. ALDEN. I am proposing nothing new. I make it specific, but I am really proposing nothing new. If you live on a rural carrier route now, you can give your money to the carrier and secure from him a money order.

Senator SHEPPARD. Yes; that is true.

Mr. ALDEN. The people are thus protected in that respect.

Senator STERLING. May a rural carrier, for example, receive a deposit?

Mr. ALDEN. Not now; no.

Senator SHEPPARD. But he can take money for money orders.

Mr. ALDEN. Oh, yes.

Senator SHEPPARD. This is an additional convenience. It is not essential to this bill, but it is an additional conveniene and it would be an additional means of getting idle money into the channels of commerce and trade.

Senator STERLING. I think that language is a little ambiguous.

Senator SHEPPARD. It is, and it can be improved considerably.

Mr. ALDEN. Section 6 reads as follows:

SEC. 6. That postmasters and other employees in the service of the postal savings bank at the time of the transfer of said bank to the Industrial Savings Board shall continue in office until it is found from experience that any one of them is inefficient, when such employee may be removed according to rules and regulations which the board shall establish, with the approval of the Civil Service Commission, and the successors of those who may be removed shall be appointed under the rules of the Civil Service Commission.

The Post Office Department is already one of the most enormous, best organized, best equipped, and best conducted business plants in the world. In connection with the enlarged Postal Savings Bank it is proposed almost to double, or more than double, its utility at an increase of expenses remarkably small when results are considered. This act will establish within the Post Office Department the largest, strongest, and most useful financial institution in the world.

There is to be no limitation as to the amount anyone may deposit. Letter carriers, rural and city, must accept deposits for the postal savings bank, and deliver receipts as they must accept and deliver letters, money orders, and parcels. Also they may, if desired, take certificates of deposit and checks to the bank, cash them, and return the proceeds to the owner. They do that sort of thing now. They are agents both of the bank and the people. What a service this will be to the masses of the people who need not leave their homes or other places of business in order to deposit their savings or draw funds as they may need them. The Government thus maintains a perpetual open door to thrift and economy, the great permanent foundation of general prosperity. In this connection I would suggest that you also consider section 18 of the proposed bill.

Senator SHEPPARD. It makes the thrift-stamp campaign permanent.

Mr. ALDEN. It is something far better than that.

Senator SHEPPARD. We are now urging the people everywhere to deposit in the Government through the thrift-stamp system. This puts it on a permanent, scientific basis.

Senator GAY. It does that without placing any limit as to the amount they are to be permitted to deposit?

Senator SHEPPARD. Exactly; and will give them an adequate return.

Mr. ALDEN. Every existing bank in the United States, in good standing, as well as every post office and letter carrier, may receive deposits and make payments, and the banks may make loans for the postal savings bank, as provided further on in this bill. I propose to tie all the banks together. I undertake to show that there will be a legitimate profit for existing banks of $100,000,000 a year not now possible.

Taking our population in 1910, now of course largely exceeded——

Senator STERLING (interposing). Just before you proceed further, you say you think ultimately, if not now, the banks will profit by $100,000,000 a year?

Mr. ALDEN. Yes; existing banks.

Senator STERLING. That is, under this proposed system?

Mr. ALDEN. Yes; the existing banks will do that. I will bring that out later in my statement to the committee.

Senator STERLING. Will they not lose something as well?

Mr. ALDEN. I do not think they will. I do not think justice is ever unprofitable.

Senator STERLING. That is a little apart from the question. Will they not lose something from a pecuniary standpoint?

Mr. ALDEN. I believe they think they will, if they have ever thought about it. I really think they have not thought about it. I think they have not even considered it.

Senator SHEPPARD. I do not think they will finally lose anything.

Mr. ALDEN. Except for Theodore H. Price, I do not know of a first-class financier on the continent who has really gone into this. As a financial "curiosity," nearly three years ago he printed the substance of this plan in his paper and said it so appealed to him that he put it before the bankers.

Senator STERLING. Has it ever been called to the attention of any of the great bankers of New York City, for instance?

Mr. ALDEN. Time and again, but I can not get in contact with them; I can not get to them. I have sent this and other things to Senator Edge, and I presume to most of you. You have not seen it. You get so much of this sort of thing that you give it no attention; you do not know anything about it at all.

Senator SHEPPARD. There is too much routine business to be attended to that requires practically the entire time and attention of the Senators.

Mr. ALDEN. You can not know anything about it; you are too much absorbed, and many men are not open-minded on that sort of thing.

Senator STERLING. I believe we all appreciate that.

Mr. ALDEN. Taking our population in 1910, now of course largely exceeded, and the deposits in the existing savings banks of the State of Connecticut, which are far from being unshackled as here provided, as a basis of comparison, the Nation would have in the postal savings bank 54,074,000 depositors—that is a mathematical comparison of population and deposits—instead of a beggarly 600,000 as now, and $27,987,000,000 deposits instead of only about $140,000,000 as now.

These big figures are, in fact, less than half as large as should be the reality, for reasons which will appear further on.

Note that, incidentally, here is legitimate "Government guaranty of deposits," simply because Uncle Sam is custodian, as he is for money-order money, and one is dead sure of getting out what is put in. No runs on Uncle Sam's postal savings bank for fear, as is possible with all other banks, has been in the past.

SEC. 7. That of the funds which are now or may hereafter be deposited in the postal savings bank not to exceed 25 per cent of the balance of deposits at any time may—

"May," not "must"—

may, in the discretion of the Industrial Savings Board, be invested in the bonds of the United States, bearing 3 per cent interest—

That differs from the bill as you have it printed now—

or bought in the open market at the lowest obtainable price, or bought at such price from the Treasurer of the United States. Any portion of said bonds may, in the discretion of the board, be sold in the open market at the highest obtainable price or sold to the United States Treasury at such price. In times of war the bond investment specified may be increased in any amount up to 90 per cent of the the balance of deposits, and the rate of interest on bonds increased to 4 per cent, or in the discretion of the Industrial Savings Board.

I maintain that the postal saving bank, alone, unshackled, would absorb all of Uncle Sam's existing debt or any that is likely to be incurred.

Senator STERLING. Just why have you the provisions in that section permitting any portion of the bonds, in the discretion of the board, to be sold in the open market at the highest price or sold to the United States Treasury at such price?

Mr. ALDEN. If you can imagine that there would ever be a run on the postal savings bank so as to call for money, here is a resource for getting money from any part of the world. I do not think it could ever occur. I can not conceive of the possibility of that happening.

Senator STERLING. Having invested in these bonds in the first instance, then, in anticipation of a run or demand for the deposits, they could dispose of the bonds?

Mr. ALDEN. Yes.

Senator STERLING. That is your reason?

Mr. ALDEN. That is what any bank does to meet a run—it disposes of its assets.

This section affords financial preparedness for the Nation on a scale hitherto unparalleled. The investment in United States bonds is an opportunity, not a requirement. The postal savings bank will naturally tend to absorb all available United States bonds on the market, and thus tend to reduce the interest rate the United States will have to pay for loans. The right to sell any portion of the bank's United States bonds in case of need provides a liquid reserve power that is not excelled. if indeed it is equaled, in the financial world, since the bonds of the United States have a world market well nigh without limit.

While the sale of United States bonds will be, as now, open to individual buyers, and such sale should be in amounts of billions of dollars, it is here contemplated that the great mass of small buyers will prefer that their own postal savings bank shall buy and hold the United States bonds for them, their personal individual holdings being certificates of deposit in the postal savings bank, which are always instantly available at par, as deposits in solvent banks always are available, and which pay depositors approximately the same rate of interest as the United States bonds.

Indeed, certificates of deposit in the postal savings bank should earn depositors even higher rates of interest than do the United States bonds, because much of the bank deposits, being loaned to highest bidders offering good security, will command higher rates of interest than the United States need, or should, pay.

SEC. 8. That no other investment of the funds deposited shall be made, but, with the exception of a working reserve, the amount of which shall be determined by the Industrial Savings Board, the balance of the funds shall be loaned at the highest obtainable rate of interest not exceeding 5 per cent per annum on what, in the discretion of the Industrial Savings Board, is considered as adequate security, in manner as follows and as in this act further provided:

Senator SHEPPARD. There is inserted in the bill, differently from the way Mr. Alden just read it, the words "not exceeding five per centum per annum," so that it reads:

The balance of the funds shall be loaned at the highest obtainable rate of interest not exceeding five per centum per annum on what, in the discretion of the Industrial Savings Board, is considered as adequate security.

Mr. Alden is proceeding on the theory that there is no limit. I thought it ought to be limited, and therefore inserted those words.

Mr. ALDEN. There is any amount of demand apparently in Wall Street, as you will see by the financial papers.

Senator SHEPPARD. I know there is.

Mr. ALDEN. Money is available on high security at 7 per cent, and give them a chance to get it if they put up the security. I continue the reading of the bill:

(a) Preference shall be given:
(1) To small loans over large loans.
(2) To short-time loans over long-time loans.
(3) Loans adequately secured by readily marketable collateral over loans on real estate or other less readily marketable security.

(b) In accordance with the above, the board shall, from time to time, fix the rate of interest to be charged according to the supply of and demand for loanable funds, the profit and security of the depositors being the basis of decision.

(c) The borrower shall always be required to protect the market value of his collateral, as is customary with other banks making similar loans, either reducing the loan, or providing additional security, in case of falling market.

SEC. 9. That the Industrial Savings Board shall give clear and ample publicity to its rulings as to character of securities required for loans and the terms of such loans under the following limitations:

(a) Loans not to exceed 95 per cent of the market value of United States bonds or the bonds of States.

(b) Not to exceed 90 per cent of the market value of such other securities as are now admissible investments under the existing laws of New York or Massachusetts for savings banks or as are estimated by the Industrial Savings Board as of equivalent good standing.

(c) Not to exceed 85 per cent of the market value of wheat, cotton, or other nonperishable products, so-called, in safe, adequately insured public storage, under regulations as the board may prescribe.

Senator DIAL. I would change that maximum.

Senator SHEPPARD. What would you put there?

Senator DIAL. I would say "not to exceed two-thirds."

Senator SHEPPARD. We do not object to making it safer.

Senator DIAL. Not long ago cotton went down from 36 cents to 22 cents.

Mr. ALDEN. How quickly?

Senator DIAL. It was pretty quickly, as I remember.

Mr. ALDEN. They are compelled under the rules here to put up additional collateral in that event.

Senator DIAL. But it might be difficult to get them to put up additional collateral. Then, if you have to sell out the security, you have a loss.

Senator SHEPPARD. That probably should be lower. This provides loans not to exceed 95 per cent of the market value of United States bonds. It gives an opportunity to people throughout the country to utilize their Liberty bonds to borrow at a small rate of interest and still hold their bonds. This adequate security is now in the hands of the people throughout the country to a greater extent than ever before. Nearly everybody has Liberty bonds.

Proceed, Mr. Alden.

Mr. ALDEN (continuing):

(d) Loans against marketable collateral shall be made at any bank of issue and redemption provided for under section 15 of this act, in accordance with rules and regulations made by the Industrial Savings Board.

These sections contain conservative and practical provisions insuring the safe and proper conduct of the bank. The borrower must protect the market value of his collateral, and no collateral is accepted at its full market value. All borrowers are on an equal footing—the banker, the merchant, the farmer, the millionaire, the man of limited means. If any preference is shown at all, it is to the small loan over the large one. The farmer is enabled to borrow money on nonperishable products, properly stored, to the extent of 85 per cent of their value, or such smaller per cent as you choose to insert to make it absolutely safe.

Senator DIAL. Would not this increase the number of employees greatly?

Mr. ALDEN. Not in proportion to the amount of increased business.

Senator DIAL. All right, sir.

Senator STERLING. It seems to me that under section 8 it contemplates a good deal of machinery.

Mr. ALDEN. We use the machinery already existing and make it do 10 times the work. Later in my presentation of the matter I shall bring in the bank machinery itself, the machinery of the existing banks.

Senator DIAL. What are you going to do where they object to the hours of work and labor? Where I come from they are wanting more pay and fewer hours of work.

Mr. ALDEN. That is a pretty prevalent condition just at this time.

The bill provides that no other investments shall be made. The bank is to take no risks on rise or fall of market prices. It will loan only against good security, the borrower taking all market risks. Banks do make investments. They buy securities outright. I do not contemplate that the postal saving banks shall ever do that,

beyond the bonds of the United States, but they shall always loan against such collateral.

The laws of New York and Massachusetts have been referred to merely as examples of laws defining security. All the provisions of these laws may not be found applicable to the postal savings bank, especially those relating to local bonds. The savings bank laws of all the States and foreign countries should be studied and their best features covered and adopted by rulings of the board.

Section 10 reads as follows:

SEC. 10. That not to exceed 50 per centum of the deposits in hand at any time may be loaned for such length of time as the Industrial Savings Board may specify in its regulations, and with or without amortization payments, as the borrower may prefer, to an amount not to exceed one-half the appraised value, on unencumbered real estate in States and Territories where laws for the protection of creditors are by the Industrial Savings Board deemed adequate and fair, in manner as follows.

Senator STERLING. There, it seems, is a very important section.

Senator SHEPPARD. It is, indeed.

Senator STERLING. It permits of loans on real estate for a long time.

Mr. ALDEN. Not to exceed 50 per cent of the deposits on hand.

Senator STERLING. That is true; not to exceed 50 per cent of the deposits on hand.

Senator SHEPPARD. Note the following rule, Senator Sterling.

Mr. ALDEN. You will hardly make a point here that you will find I shall not bring up a little later on in my presentation. I am extremely glad to have you make any suggestions or ask any questions. I am now going to bring in the other banks, for the section of the bill reads further as follows:

(g) Through any national bank, or other incorporated bank, or corporation whose business is dealing in or guaranteeing real estate mortgages and which is subject to the examination and control of the United States Treasury or of the banking department of any State which in the estimation of the Industrial Savings Board adequately protects depositors, loans may be made to an amount at one time outstanding not to exceed ten times the capital and surplus of the bank or corporation, which shall be required to guarantee the prompt payment of the principal and interest of the loans made through said bank or corporation.

(b) The bank or corporation shall be entitled to a commission of 5 per centum of the interest paid on such loan by the borrower, or such less per centum as the board may prescribe, who shall not be subject to any other charge except the necessary expense of examination of title and drawing papers, which charge may be fixed by rules of the Industrial Savings Board, all terms and commissions to be uniform throughout the United States.

Note that loans on real estate are to be made through banks and other financial institutions of established standing which guarantee principal and interest for a small commission on the interest paid.

Senator SHEPPARD. In other words, the postal savings bank itself does not loan directly on real estate.

Senator STERLING. Yes; but 50 per cent of the deposits may be loaned on real estate. Why do you limit the amount which may be loaned by any national bank or other incorporated bank to an amount not to exceed ten times the capital and surplus of the bank or corporation?

Mr. ALDEN. I am following the principles there of the present farm-loan act. There is some such provision as that in there, as I remember it. I can not be quite sure of that detail.

Senator STERLING. But here the bank is lending the deposit. The bank is not loaning its own funds; it is loaning the deposits.

Mr. ALDEN. The deposits of the postal savings bank. The other banks are acting as agents for the loan of the funds of the postal savings bank.

Senator SHEPPARD. You would want to place some limit on it, would you not?

Mr. ALDEN. It is purely a matter of conservatism.

Senator STERLING. It would seem to be a matter of inference. There is a requirement here that appears more by inference than otherwise that the banks shall guarantee it.

Mr. ALDEN. Yes; that is right.

Senator STERLING. And you limit the amount of the loan because guaranteed by the bank?

Mr. ALDEN. Yes; that is the reason.

Senator STERLING. It shall be required to guarantee the prompt payment of principal and interest of loans made through such bank or corporation?

Mr. ALDEN. They must not make excessive loans. They are competent judges for themselves. Shall I proceed?

Senator STERLING. Yes.

Mr. ALDEN. The borrower pays the expense of examining title, drawing papers, and so forth. Savings banks generally lend more than 50 per cent of their deposits on real estate, while building and loan associations invest in this way nearer 100 per cent of their funds. The banks through which real estate loans may be made have established machinery and facilities for making loans. They have the necessary knowledge of local conditions and personalities. Self-interest will prevent them from making excessive or risky loans, and they can probably do this business at less expense than that with which the postal bank could itself organize and conduct a safe loan board. If they are compelled to foreclose, they will be entitled to such costs and fees as the courts allow.

The commission in the great cities allowed agents for collecting rents is from 1 to 5 per cent of the rent—commonly 2 per cent for large buildings. The monthly collection of rents is certainly more onerous and expensive than the collection of interest on mortgages once or twice a year. Interest is the rent of money. The commission runs during the life of the loan and is payable annually.

Let us illustrate: A bank with $100,000 of capital will first loan its own funds to such extent as it pleases, under legal limits; then it may loan for the postal bank to any amount not exceeding $1,000,000, ten times its capital. Interest on loans of $1,000,000 at 5 per cent is $50,000 a year; 5 per cent commission on such interest is $2,500 a year. Thus its loans for the postal bank produce a perpetual income of $2,500 a year, with trifling, if any, additional rent or clerk hire. How many times, under present conditions, are the banks compelled to quit lending because of lack of loanable funds? Here there will never be such lack.

Senator DIAL. There you run against section 5202 of the national banking law, which does not allow you to obligate yourself beyond a certain percentage of the capital.

Senator SHEPPARD. This would not change that.

Senator DIAL. The Treasury Department is totally opposed to amending that section.

Senator SHEPPARD. That has reference to its own funds.

Senator DIAL. No; it would be the same thing. These are not its own funds, but the borrowers' funds.

Senator STERLING. I am not quite clear on that point yet. I am referring to the question asked a moment ago. Any bank will not be authorized to loan, under this act, except from the savings bank deposits with that bank?

Mr. ALDEN. No; we do not mean to change at all the existing national bank laws; we leave those as they are. They are simply acting as agents of the postal bank for a commission on the loans they make.

Senator STERLING. Is it conceivable that any national bank could ever have of deposits at any time an amount ten times the capital and surplus of that bank or corporation?

Mr. ALDEN. The postal savings bank is never to deposit its funds with other banks but only to loan to them on pledge of adequate security this law provides.

Senator STERLING. You authorize the bank to loan "to an amount at one time outstanding not to exceed ten times the capital and surplus of the bank or corporation." You authorize that. How can you do that?

Senator SHEPPARD. That is the money of the postal savings bank.

Mr. ALDEN. Not the money of the bank itself, but of the postal savings bank.

Senator STERLING. I understand that; but is it conceivable that the money of the postal savings bank can be deposited in any one bank to an extent where it will exceed ten times the amount of the capital and surplus of the bank?

Mr. ALDEN. The postal savings bank is one bank and not 100,000 banks, one at every post office. The postal bank in no case deposits its funds in other banks. It simply loans its deposits through those other banks, paying them a commission on the loans they negotiate and guarantee.

Senator STERLING. But you are now authorizing——

Mr. ALDEN (interrupting). We are not loaning local funds; we are loaning funds from the whole postal savings bank—one vast reservoir tapped by 100,000 branches or agencies.

Senator STERLING. So you may loan them all under this theory through any one bank?

Mr. ALDEN. Oh, no.

Senator STERLING. Except as they would be limited by their capital and surplus.

Senator STERLING. Do you mean to say that aside from the deposit of the postal savings bank fund in a particular bank, that bank may negotiate a loan of any postal savings deposit? Is that right?

Mr. ALDEN. Yes.

Senator STERLING. Then let us say here is a reservoir, this is the postal savings bank and we are authorized now to loan the money of that bank, although it is not specifically on deposit with us?

Mr. ALDEN. Yes; certainly.

Senator STERLING. That is the theory?

Mr. ALDEN. It is not deposited with other banks at all.

Senator SHEPPARD. It is never deposited with banks other than the postal bank itself.

Senator DIAL. Apparently people have to pay interest and besides that a commission, so how are you going to get them to do that? Will not that deter people from borrowing?

Mr. ALDEN. That is all provided for. The postal bank, not the borrower, pays the commission.

Senator DIAL. This is no more attractive than any other form of borrowing, is it?

Mr. ALDEN. Except that it is under specific regulation. There is no difference in the charges to different borrowers. They are all treated alike. Note further that this commission of 5 per cent is double that allowed for dealings on the New York Stock Exchange, and still further that it is annually renewed during the life of the loan, instead of being paid but once, as on the New York Stock Exchange.

SEC. 11. That personal loans without requirement of collateral security by the postal savings bank may be made in manner as follows:

(a) The borrower to make written statement showing his assets and liabilities; the amount of loan, not to exceed $1,000; the length of time, which shall not exceed one year; the purpose for which the loan is to be used, which shall be in accordance with the stated purpose of this act; which statement shall be attached to the borrower's negotiable note.

(b) The principal and interest of the loan to be guaranteed prompt payment by a bank or corporation, as in section 10 of this act, which shall be entitled to a commission of 5 per centum of the interest paid thereon, or less, as the board may direct, the borrower being subject to no other charge, and the total of such loans at one time outstanding not to exceed five times the cpital and surplus of the guarantor.

(c) The limit of the loans specified in (a) of this section, if after two years' trial is deemed too small for the best results, may be extended by the board from time to time to larger specified sums, the terms to be uniform throughout the United States.

Senator DIAL. Suppose a man wants to borrow a $1,000. He is paying 5 per cent for his guaranty. What rate of interest does he pay?

Mr. ALDEN. Five per cent commission on the interest is paid by the postal bank, not by the borrower.

Senator DIAL. Is that on the interest or on the loan?

Mr. ALDEN. Five per cent on the interest.

Senator DIAL. What interest does he pay on the principal of $1,000? What interest does he pay on that?

Mr. ALDEN. Whatever rate of interest the board specifies.

Senator DIAL. Say he pays 5 per cent on it, that would be $50. Then the bank would guarantee it for $10?

Senator SHEPPARD. No; for $2.50.

Senator DIAL. Yes; my arithmetic was wrong. Do you suppose a bank would bother with that sort of thing, for that kind of competition?

Mr. ALDEN. I suppose nine times out of ten the bank would loan its own funds; or if short of funds would not a wise and liberal banker say: "Certainly, Jones; glad to accommodate you; will get you the postal bank money; you will make us secure, of course, for our guarantee, and you will reciprocate the favor by giving us any little business you have; sending your friends to us. Any time you want a favor in our line come to us."

Senator DIAL. That is true.

Mr. ALDEN. I do not think this section will practically amount to a curtailment of their business in that way.

Senator DIAL. I do not believe a bank would bother with this sort of thing. Anyway, you would have to amend the general law, too.

Mr. ALDEN. These personal loans are to be made without collateral through the banks——

Senator DIAL (interposing). That is entirely impractical. A bank would not loan a borrower on his own paper, directly, any money. In my country they require two indorsers and the bank, having guaranteed this, will be doing the same thing as loaning that money.

Mr. ALDEN. Do not banks very often take risks of personal integrity very largely, based on knowledge of the individual?

Senator DIAL. Yes, more or less.

Mr. ALDEN. This is limited to $1,000, and furthermore, the bank which guarantees the loan is authorized to exact security from the borrower, but the postal bank does not exact it.

Senator DIAL. I understand, and it ought to be limited. Any country bank requires a borrower to have two indorsers or some kind of collateral.

Mr. ALDEN. This would provide particularly for small short-time loans, for helping these farmers over to a crop time and through emergencies. The first loan I ever received that amounted to anything was voluntarily offered me by a rich man, one of three original proprietors of the Pullman palace car whom I scarcely knew, to enable me to buy out a partner. He said, "I will loan you the money," and he did.

Senator DIAL. All right; go ahead, Mr. Alden.

Mr. ALDEN. These personal loans are to be made without collateral through the banks, other financial institutions, and so forth, which guarantee principal and interest, for an annual commission of 5 per cent on the interest. The bank through which the loan is made may exact what security it pleases.

These personal loans should amply meet the wants of small farmers, mechanics, and even merchants, for short-time loans to provide for planting and marketing crops, or other temporary needs.

Here is the possibility of $1,250 additional income a year for the bank with $100,000 capital. Remember that the bank has the opportunity first to utilize its own resources on the "pick" of the loans. So we have an annual profit for the bank in question of $3,750 for handling the funds of the postal bank, the borrower getting his funds at 5 per cent or less. Now observe further, that this profit may be doubled by the commission received by the bank on the deposits it receives and maintains for the postal bank under section 20.

As agents for the loan of postal bank funds there will be legitimate profit for commercial banks of probably $100,000,000 a year in return for honorable, highly useful economic service.

If the postal bank can earn its depositors 4 per cent, commercial banks, with greater initiative and warrant to take risk, which the postal will not take, can earn their depositors even more—and they can always serve the worlds of commerce and manufacture as the postal bank can never do.

Nothing is more profitable—economically profitable—than simple, even-handed justice, which is here proposed for depositors and patrons of the postal savings bank, and for the benefit of the Nation in times of war or of peace.

SEC. 12. That to induce the largest possible savings and serve the greatest possible convenience, security, and economy of use to depositors and to the postal savings bank, the Industrial Savings Board shall cause to be prepared and issued certificates

of deposit of the size and form, but different in color and appearance, of customary bank currency, the said certificates being of the following tenor and in manner indicated:

(a) Issued:

Year : January, February, March, April, May, June, July, August, September, October, November, December.

Day: 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31.

The United States postal savings bank has received from (here the depositor will write his signature or not, as he pleases) $10 (or other specified sum) and will pay the same, together with all net interest earned hereon, the interest compounded semiannually, on surrender hereof properly indorsed. If no signature is written, payment shall be to bearer. Interest shall begin on the first day of the month following that indicated by cancellations in the margin, and shall terminate the last day of the month preceding payment, also shall terminate five years after date of issue, but any certificate may at any time be surrendered in exchange for a new issue of current date.

Issued and payable at Washington, District of Columbia, but procurable or cashable through any post office or authorized bank.

(b) Certificates in this form shall be issued in denominations of $1, $2, $5, $10, $50, $100, $1,000, and larger, as the Industrial Savings Board may order.

Senator STERLING. Unless you think there is something quite essential in explaining the certificate, etc., it might be well to pass on to the next section.

Mr. ALDEN. I am perfectly willing to do it, but this is the thing that is going to bring in all this idle money. This is what will make the water all run through the turbine instead of over the dam. If you will study it very carefully, I am quite willing to pass it.

Senator STERLING. Proceed, Mr. Alden.

Mr. ALDEN. The remainder of the section reads as follows:

(c) Certificates similar, but bearing no interest, shall be issued in denominations of $1, $2, $5, and $10.

(d) To encourage the beginning of deposits, and also serve the convenience of those who desire them in pereference to coin money, certificates payable to bearer, without interest, shall also be issued in denominations of 5 cents, 10 cents, 25 cents, and 50 cents, of size and form similar to United States fractional currency issued in 1862 and later.

(e) An additional form of certificate of deposit of similar purport to (a) shall be a registered certificate, issued in multiples of $100, the principle payable at any time on surrender, properly indorsed, the interest to be remitted semiannually, all details, including manner of registration, being according to regulations of the Industrial Savings Board.

(f) Simple printed instructions for their use may appear on the front or back of each of the various certificates.

(g) These certificates shall not be legal tender nor in any way indicated as "money," but may pass from hand to hand by mutual agreement as is done in the case of "certified" or other bank checks.

(h) Checking accounts may also be permitted by depositors who carry an average balance over $500, at cities designated and in accordance with regulations made by Industrial Savings Board, interest on daily balances to be paid on such accounts semiannually.

You give the postal bank $10 in gold, or what will get the gold, and you prefer this certificate to gold because this earns compound interest. Printed tables will tell you its value at 4 per cent or other interest for any number of days, months, or years. The bank loans your gold, "on call," on security of municipal bonds, at 4 per cent, or on wheat or cotton for a month or a year at 5 per cent; or on farm mortgages, 5 years, at 5 per cent, to the highest bidder in each case. Whoever gets the gold, of course, deposits it again in the postal bank and takes a certificate like yours, and the bank, of course, loans the gold again, and so on, perhaps 10 times over, so that $10 gold is

earning possibly 50 per cent per annum, and the postal bank still has that gold to loan to the next man. This shows how banks have got rich in the past; how depositors will hereafter get, not rich, but each what his money fairly earns. Nobody wants to keep that gold any more than you want the man's yardstick when you buy 10 yards of muslin. If you get certificates of deposit, drawing no interest on their face, the bank loans the gold, just the same, and so earns increased interest on your $10, $100, and $1,000 certificates.

This "automatic money mobilizer" does away with all necessity for the clumsy, antiquated "individual accounts" bookkeeping methods, and will reduce bank expenses in that respect to one-fourth or one-tenth of present cost and be far more convenient for depositors, and just as safe as the present clumsy method.

Senator SHEPPARD. Just in order that we may keep the record straight let me here make this statement with reference to Section 12:

Two kinds of certificates are created by this section: First, those in denominations of $10 or more, which bear interest and are payable to order; second, those in denominations of $1, $2, and $5, and of fractional parts of one dollar, which carry no interest and are payable to bearer. These certificates being easily negotiable will practically supplant actual money. They will do away with the cumbersome check system, the elaborate bookkeeping it entails, as well as the present expensive exchange system. They are good anywhere in the United States, just as gold certificates are good, although the gold is in the United States Treasury vaults. These certificates are not money any more than national bank notes.

Mr. ALDEN. Instead of clipping coupons twice a year as in United States bonds, the depositor simply pays out part of his holdings, those he retains growing in compound-interest value.

These certificates of deposit, each virtually a "certified check" (certified by Uncle Sam) will be good anywhere in the United States just as gold certificates are good anywhere, though the gold is in the United States Treasury vaults. Thus they will serve "for exchange" and tend to do away with the present cumbersome and vastly expensive "exchange system."

Postal banks will almost never pay out real "money" at all, but pay out, instead, because preferred, only its own certificates of deposit, which serve every possible purpose of real money, and every dollar of which earns interest for depositors every day it is outstanding.

These certificates will make the money in your pockets, cash drawer, or safe, draw interest for you while you hold them, for the next man when you pay them over—will buy anything which gold will buy—will buy gold itself. Nobody, but bankers (as basis for larger credits, and for foreign exchange) wants gold, which in possession earns no interest, but will prefer these certificates which in possession do earn compound interest.

Everybody, even pro-Germans and pacifists, will gladly turn over to the postal bank, in exchange for these certificates, every dollar he has, every dollar he gets in the future, that it may earn him 4 per cent or other interest—all will "flock" to deposit earnings in the postal bank as hungry men coming to a feast (no need for "Barnum circus" advertising methods, semihysterical, undignified appeals to patriotism to buy "Liberty Bonds," buy "War Savings Stamps") which by approval of all postal bank depositors will have preference to the extent of Uncle Sam's need for postal bank investments.

Every banker knows, as do most of the well-informed, that of all the so-called "money" in existence, nearly one-half of it is not at one time in any bank. Some of it is foolishly "hoarded" by those "afraid of banks," but most of it is just "idle money," in your pocket and mine, earning nothing, "no good" at all till we pay it out for something we want. Ever since banks were invented bankers have been trying to "corral" this elusive outside money, "going to waste" just as much as water running over the dam instead of through the turbine is wasted. This simple device of a negotiable postal bank certificate of deposit will naturally and certainly as the law of gravitation, as the law of magnetism draws bits of iron, "chase" this "money" out of your pocket and mine, even out of knot holes, stockings, tin cans, and other hiding places, into existing banks, approximately doubling the foundation resources of banks. There it will be loaned, redeposited, and loaned again, in a way bankers know how, till the near two and a half billion dollars of now "idle money" is multiplied to thirty or more billions of available useful "credits"—perfectly good, not so much because always "payable in gold," as because based on solid property assets, earning or growing into money or what brings money. This will practically nearly "double the money crop," and as doubling the crop of wheat, or cotton tends to "cut the price," so should this tend to reduce interest (the "price" of money) to Uncle Sam, when he wants to borrow money to fight with, or to you and me if we want to borrow to build a silo, buy a farm tractor, or build a home.

Senator STERLING. What would be the effect upon prices?

Mr. ALDEN. Nobody knows.

Senator SHEPPARD. The price of money, do you mean—interest?

Senator STERLING. I mean commodities. What would be the effect on the price of commodities?

Mr. ALDEN. It would start production enormously. That is the effect it will have.

Senator STERLING. It will increase prices, will it not?

Mr. ALDEN. Not if you multiply production. If you produce large quantities of eggs, corn, and wheat, you put down prices.

Senator STERLING. It will start production and that in turn will tend to reduce prices?

Mr. ALDEN. Yes.

Senator STERLING. That is your theory?

Mr. ALDEN. Yes, this more than any one thing you can possibly do will cut the cost of living.

Obviously a feature of infinite value incidental to this plan is its incitement to thrift and saving—universal, far-reaching.

The present gold basis of all money will in no way be altered. Of course, actual gold will be called for only as limited commercial exigencies compel its use, because gold in possession earns no interest, while certificates of deposit in the postal banks in possession earn compound interest.

Take emphatic note that nothing is here suggested in the line of "fiat money" nor even of "inflation" of credits.

Every bit of paper is to be on "a parity with gold"—certificates of deposit are made so good they are to be preferred to gold. The essence of "inflation" that is vicious, is so-called "money" not based on reality, or credits, not based on solid security, but on "speculative" values, rather than on the earning, creating power in the investment made.

Senator SHEPPARD. Perhaps I may conclude this statement, if I may.

Mr. ALDEN. I should be very glad to have you do so.

Senator SHEPPARD. I will read several of the sections. Sections 13, 14, 15, 16, and 17 read as follows:

SEC. 13. That the Secretary of the Treasury is authorized hereafter to deposit any money in the Treasury, in the postal savings bank (without requiring security therefor) as he does in other banks of deposit, and shall, so far as practicable to do so, make disbursements from the Treasury in the form of certificates of deposit in the postal savings bank, provided this method is acceptable to payee.

SEC. 14. That all banks in the United States may hereafter deposit their funds in the postal savings bank, and certificates of deposit issued therefor may be counted as part of their legal reserve.

SEC. 15. That at the county seat of every county in the United States, or similar civil divisions otherwise called, and in such other cities as the Industrial Savings Board may select, post offices shall be designated by the Industrial Savings Board as postal savings banks of issue and redemption.

(a) Such bank of issue and redemption shall issue and record as required by the Industrial Savings Board certificates of deposit as described in section 12 hereof, in exchange for bankable funds as per regulations made by said board, and may redeem the same, whether issued by itself or by other similar banks of issue and redemption, either in money or in new certificates of deposit, as the applicant may desire.

(b) Each depositor in said banks shall record his signature and address in duplicate with the bank on a record provided, as is customary in commercial banks, so that indorsement of signatures on banks of certificates may be verified when desired.

(c) These banks of issue and redemption shall supply minor post offices in their region, and letter carriers, with facilities for serving all who desire to do business with the postal savings bank, requiring such security as may be necessary from those handling the funds of the bank or its patrons.

SEC. 16. That the Industrial Savings Board shall designate twelve or more districts covering the United States in a central city of each of which it shall cause to be organized a district bank which shall act as clearing and reserve banks for all the banks of issue and redemption within the district, in accordance with rules and regulations of the Industrial Savings Board.

SEC. 17. That the Industrial Savings Board shall further cause to be organized in the city of Washington, District of Columbia, in the Post Office Department, a national central postal savings bank, which shall act as clearing and reserve bank for the twelve district banks, and may have direct dealings with and oversight of all the county banks of issue and redemption as the Industrial Savings Board shall order.

These sections provide that postal banks shall be established in every county seat, other post offices in the county to be branches of the county-seat banks, under regulations of the board. The United States is to be divided into 12 or more districts, with a central postal bank for each district, which shall act as a clearing and reserve bank. A national central postal savings bank to be established at Washington, which shall act as a clearing and reserve bank for the district banks and which may have supervision over the county banks.

SEC. 18. That every smaller post office and every letter carrier may, in accordance with regulations made by the Industrial Savings Board (adequate bonds for safety being required as convenient) keep in hand limited amounts of certificates of deposit, secured from the local county banks of issue and redemption, to be given to known applicants in exchange for bankable funds to be forwarded to the county bank of issue and redemption, and may also redeem small certificates of deposit as they can conveniently. Such post offices and letter carriers shall also give proper receipts to any applicant for bankable funds or for certificates of deposit, to be sent to the county bank of issue and redemption to be exchanged for money or other certificates of deposit, and deliver the same to said applicant in exchange for their own receipt originally given to the applicant.

SEC. 19. That each county bank of issue and redemption and each district bank shall keep in hand such working balance as the Industrial Savings Board shall direct,

the county banks forwarding any surplus to its district bank, and the district bank any surplus to the national central bank, and each of said banks shall make loans as authorized by the Industrial Savings Board, the county bank drawing for funds when deemed necessary on its district bank and the district bank drawing on the national central bank as the Industrial Savings Board may direct.

SEC. 20. That existing savings and other banks in the United States which desire and will submit to satisfactory examination and supervision of the Industrial Savings Board and are found of standing satisfactory to the board, may be made agents of the postal savings bank, to receive deposits and pay certificates in accordance with regulations made by the board, and shall be allowed as compensation for such service a commission to be authorized by the board and not to exceed 5 per centum of the net earnings of the deposits, for which registered certificates (only) are issued, which said existing bank secures through its agency, such commissions to be uniform throughout the United States.

The provisions of this and other sections permitting any bank in the United States in good standing to become a deposit and loan agent of the postal banks would tend to strengthen rather than to injure by competition any and every such bank. Their depositors would not leave them for the postal, because they can supply the postal certificates when preferred to their own. As private enterprise and initiative have certain advantages over public institutions of this kind, due to more accurate knowledge of local conditions and opportunities and better means of keeping in touch with them, the agents by offering slight additional interest inducement may secure enlarged deposits for themselves. To applicants for loans the agent may always loan his own funds instead of loaning the postal funds if he desires.

Note the profit to existing banks in this connection, illustrated in note under section 11.

Section 21 reads as follows:

SEC. 21. That in lieu of the principal of amortization (which may be applied when the borrower desires) loans secured by real estate or other collateral may be made as follows:

The mortgage or other paper shall be drawn to secure any sum due from the borrower not exceeding the amount named therein for any time not longer than the longest time therein specified, the borrower thus being permitted to adjust the amount of his loan from time to time according to his needs and opportunities.

Under this plan, while the borrower would naturally make application for the largest loan which the pledged property would be sufficient to secure, his certificate, being passed, he would actually borrow not the most but the least sum that would serve him, and only as it was actually needed, and would repay it as fast as he could, so as to stop interest, knowing that he could at any time borrow again if he should have need or find profitable use for the money. This elasticity of loans would be of almost incalculable value to the borrowers, to the bank, and to the community, stimulating enterprise, thrift, economy, providence, and would certainly be more desirable than ironclad unalterable amortization loans.

Section 22 is as follows:

SEC. 22. That the Industrial Savings Board shall test the safety and practicability of making small and short-time loans to farmers and other producers in manner as follows, and in accordance with such other regulations as may be extended to many or all other counties:

(a) After the total balance of deposits in the postal savings bank shall have reached the sum of not less than $1,000,000,000.

(b) The board shall select not to exceed ten counties in various parts of the United States to make trial for a period of not less than one year, after which time, if in the opinion of the board the plan is successful, the method may be extended to many or all other counties.

(c) All persons desiring to borrow, without collateral security, any sum not to exceed $500 for a time not to exceed one year each, shall make a statement showing the amount of his assets and liabilities with their nature, in form and manner specified by the board, the amount of the loan desired, its length of time, and the purpose for which it is to be used, in accordance with this act, which statement shall be attached to the applicant's negotiable note.

(d) These applications shall be referred for approval or rejection to a committee of three persons elected by the applicants for such loans within the county and also to a committee of three persons elected by the depositors in the postal savings bank within the county holding registered certificates in manner provided as follows: Loans to be allowed must be approved by not less than two-thirds of the weight of vote of each committee and also approved by one or more experts appointed by the Industrial Savings Board.

(e) The two said committees to be elected in manner as follows: The postmaster to prepare printed ballots and send the same with return envelope to each applicant for loan, and to each depositor in the county bank of issue and redemption having then, and three months previously, outstanding registered certificates of deposit. Each such elector, applicant, or depositor, shall be entitled to three votes, which he may cast for three, two, or one persons or person of his choice. The person or persons so chosen, each having weight of vote according to the number of votes by which he is chosen, shall upon notice of the postmaster meet and choose three of their number to act as the committee, such electors balloting repeatedly as may be necessary to reduce the number to three. The committee having been thus elected, each member shall have weight of vote according to the cumulative number of votes by which he is chosen.

(f) The members of the committee chosen shall have compensation for services in passing on loans at the rate of 20 cents an hour, the time to be approved by the county seat postmaster.

(g) Applicants whose loans are accepted shall give the bank negotiable notes for the amounts and time approved, the same to be discounted by the bank at 10 per centum per annum, the applicant being given the proceeds less his pro rata of all expense of passing on the loans. After the end of one year, when all of the loans shall have matured, any profits to the bank on the total of the loans in excess of 5 per centum per annum shall be paid as provided by the board in rebate to those whose loans shall have been promptly and fully paid, so that the net cost of the loan to the borrower may possibly be reduced to approximately the same as the interest rate on secured loans.

(h) If after ample test such method of loaning is found safe and profitable the amount to be loaned to each applicant may be increased beyond $500, the increase to be uniform throughout the United States and not to exceed $1,000. If some counties prove to be habitually unprofitable while other counties prove habitually profitable, the board may withhold, temporarily, or longer, permission to make such loans from the unprofitable counties.

This section, as it specifies, is intended to be tentative and experimental. It is believed that generally throughout the United States practically all deserving wants of borrowers will be amply taken care of under sections 10 and 11. But the possibility of use being made of this section will have a healthy influence on banks acting as loan agents under said sections, and this plan of passing on loans, the depositors approving or rejecting, the borrowers assuming limited mutual responsibility, may in time be extended to real estate and other secured loans.

SEC. 23. That commercial and savings banks may make deposits in and draw upon county banks of issue and redemption to such extent as said county banks may be able conveniently to serve them, but may, without limitation, deal direct with the district banks and national central bank as per regulations of Industrial Savings Board, and certificates of deposit in the postal savings bank may be counted as part of the legal reserve of all depositing banks.

If any bank should prefer to keep gold or other form of so-called money as a reserve, it can do so; if such other form of reserve than certificates of the postal bank make it any stronger, then it will have what advantage there may be in the increased strength. Certificates

of deposit in the postal bank are not legal tender, but each is a certified check, certified by the United States Government, and is good anywhere. Certified checks of banks are not legal tender, but do they not serve amply every commercial want except in rare technical legal quibbles? If what is offered is good—as gold is recognized as good even when not coined—it does not need to be legal tender. If it is not good—accepted by custom—it is at best a promise and commonly in some measure a deception, and in the end the man who labors is the man who loses most by the fraud. Of course, the law of the inviolability of contract will continue, and the debtor must always make good according to his contract, whether it is formal or by implication. Postal bank deposits will always be good while the United States Government is good. This is perfect guaranty of deposits.

SEC. 24. That the board shall cause to be prepared and printed for the general public simple tables showing the value of $10 or larger sums at compounded interest for days, months, and years at various rates of interest, such as will be useful to depositors.

This will be a matter so simple that any intelligent person can know the value of the certificates he owns. What are the net earnings of the postal bank will quickly be known, will be steadily the same, or only slightly or gradually varying from month to month, and will be published daily in papers and periodicals.

Of course, it will be the smaller certificates, $5 and less, which do not on their face bear interest and are always worth par which will mainly pass from hand to hand. Larger interest-bearing certificates will pass principally in the same manner as the ownership of United States bonds passes, the market value of which is known every day.

SEC. 25. That needless and expensive records and statistics shall be avoided, but the board shall provide for such as may materially serve the interests of depositors and enable the board to annually report to Congress such information and recommendations as may be of service to Congress.

SEC. 26. That to the extent that the mails shall be used in facilitating the business of the postal savings bank, either by the bank itself or by its patrons, the board shall provide special stamps for free use of the mails, keeping records so that approximately the actual cost of such postal service shall be paid by the postal savings bank to the Post Office Department.

These provisions are matters of simple sense and justice, and encourage the most liberal use of the postal bank. Such use will be principally local, or within the county, and the actual cost of service for each transaction nearly infinitesimal; but whatever the cost is it will be paid by the bank at the expense of the beneficiaries, the depositors, and borrowers, and not of the taxpayers in general. This principle is maintained throughout the measure.

SEC. 27. That the sum of $1,000,000 is hereby appropriated for any necessary expense, in the discretion of the board, in the rapid development of the postal savings bank, the sum used to be considered only as an advance and to be repaid to the Treasury, with interest thereon at 3 per centum per annum from the profits of the postal savings bank, which is to be made self-sustaining without subsidy or other charge against taxpayers.

SEC. 28. That all provisions of an act to establish postal savings, and so forth, approved June 25, 1910, and of amendments thereto not inconsistent with this present act shall continue in force, and all other provisions are hereby modified or repealed, as are all other acts of Congress inconsistent herewith.

This section explains itself. It continues the present postal savings law except as changed by this act.

SEC. 29. That to the extent that certificates of deposit in postal savings banks crowd out of use forms of paper money now in use, causing the depreciation of the market price of bonds of the United States used to secure their circulation below par, the Treasurer of the United States shall purchase or redeem such bonds at par issuing, so far as may be necessary to do so, other bonds of the United States bearing higher rate of interest and marketable at or above par.

This provision also is a matter of simple justice to bankers who have invested in such bonds because of the currency advantages they gave. The United States received par for the bonds, and the consideration of their use having in part terminated, the Government should pay par for them.

Senator STERLING. In section 23 you provide for the county banks and for commercial and savings banks, and that commercial and savings banks may make deposits in and draw upon county banks of issue and redemption, etc. What do you mean by "county banks?"

Senator SHEPPARD. That is the county postal savings bank located at each county seat, or if that is not an important center, then the important commercial center of the county. In other words, the central bank for the county.

That concludes a description of the bill.

Senator DIAL. Suppose the Government bond does not bring par, the Government has to pay par anyway?

Mr. ALDEN. That is intended to refer particularly to some 2 per cent bonds that are now outstanding and possibly those would no longer be useful to bankers. I do not say that they would not; I think perhaps they would. If so, and they should depreciate in value on the market, the Government should redeem those at par.

Senator SHEPPARD. Permit me to add this closing statement:

Never have justice, patriotism, necessity, and business sense united more emphatically than in this measure. It establishes a new and immense reservoir of capital on which all people and all institutions possessing requisite security may draw on terms of exact equality—a reservoir from which fresh streams of credit will issue to expand and multiply the channels of production, manufacture, and distribution. The element of personal rivalry will not be known. A man, although he may offer perfect security, will not be told at the postal bank that he can not be accommodated, because he has not been depositing there. That is frequently done in the commercial banks. I had a banker decline to lend me money a year or two ago because I had been a depositor in the other bank.

A man will not be told that he can not be accommodated because he does not belong to a certain business clique. The fact that this tremendous volume of credit is loanable at not more than 5 per cent will bring down and regulate interest charged everywhere. It will mean the economic independence of the American masses. The American people possess the means of creating this beneficent institution. They should demand its immediate erection.

Unshackle the postal savings bank. Let the people's bank serve the people. Mobilize the dollar as well as the man.

Senator STERLING. Is that all you have to present, Senator Sheppard?

Senator SHEPPARD. That is all. We are anxious to get the bill before the committee, and when you have these hearings in printed

form before you, it will give you an idea of the measure. We certainly are very grateful to you for your patience and attention to-day.

Mr. ALDEN. I join heartily in that statement, Mr. Chairman.

Senator STERLING. I believe something was said about the Post Office Department having had this matter under consideration. Has there been a report rendered by that department?

Senator SHEPPARD. I believe there was a report sent to your committee. I would ask that that report be incorporated in these hearings, so we will be able to have before us the tendency of the department in respect to this matter.

Senator STERLING. Very well. The reporter will incorporate that in the hearings.

(The report referred to is as follows:)

POSTAL SAVINGS SYSTEM,
THIRD ASSISTANT POSTMASTER GENERAL,
Washington, August 4, 1919.

Hon. CHARLES E. TOWNSEND,
Chairman Committee on Post Offices and Post Roads, Washington, D. C.

MY DEAR SENATOR TOWNSEND: Your communication of the 24th ultimo, addressed to the Postmaster General, has been referred to me for reply, and I am presenting herein my views on the merits of Senate bill 1677.

(1) The bill not only proposes a sweeping change in the policy and administration of the postal savings system but affects in important respects the general banking organization of the country. I shall only point out and discuss the more salient features of the bill.

(2) An "Industrial Savings Board" to be composed of the 10 members of the Cabinet, who are to serve in an ex-officio capacity is provided for. The board of trustees of the Postal Savings System as organized under the act of June 25, 1910 (known as the organic postal savings act), is made up of the Postmaster General, the Secretary of the Treasury, and the Attorney General, and their powers are clearly prescribed by statute. The proposed board is given unusually large discretionary powers. It would have been better, in my judgment, if such powers had been more sharply defined in the bill.

(3) The Industrial Savings Board is to take over "the existing postal savings bank, the details of its administration to continue in connection with the post offices throughout the country under the direct supervision of the Postmaster General acting for the board." All limitations on the amount of deposits are to be removed. In this connection, it will be recalled that the act of June 25, 1910, fixed $500 as the maximum balance a depositor could have to his credit. This amount was increased by statute to $1,000 on May 18, 1916, and to $2,500 on July 2, 1918. The latter figure meets all reasonable demands at this time.

(4) Section 7 of the bill provides that not to exceed 25 per cent of the postal savings deposits "which are now or may hereafter be deposited in the postal savings bank" may, in the discretion of the Industrial Savings Board, be invested in bonds of the United States. The bonds are to be bought or sold at the most advantageous market prices. In times of war bond purchases may run up to 90 per cent of the deposits. No other bond investments are provided for. The present statutes require that 5 per cent of all deposits shall be held in the United States Treasury as a reserve and that the balance shall be placed in local banks which qualify to receive them. The President may, when the general welfare and interests of the United States so require, direct the board of trustees to invest all or any of the postal savings funds, except the reserve fund of 5 per cent, in bonds or other securities of the United States. The reasons which led the framers of the original postal savings act to direct the deposit of funds in local banks will be discussed later.

(5) Section 8 provides that "with the exception of a working reserve," amount to be determined by the board, the balance of the funds shall be loaned at the "highest obtainable rate of interest not exceeding 5 per centum per annum on what, in the discretion of the Industrial Savings Board, is considered as adequate security." Preference will be given to small and short-time loans secured by readily marketable collateral.

(6) Section 10 authorizes the loaning of not exceeding 50 per cent of the deposits "in hand at any time" on unincumbered real estate. Such loans may be made "through any national bank or other incorporated bank or corporation whose business is dealing in or guaranteeing real-estate mortgages" and which are subject to national or State examination and control. These institutions are to guarantee the prompt payment of principal and interest, and may receive a commission of 5 per cent of the interest paid on loans for so doing.

(7) Section 11 permits personal loans not to exceed $1,000 each, which may run for not more than one year, provided they be guaranteed in the same manner as loans named in section 10. A commission of 5 per cent on interest received on personal loans may be allowed the guarantor.

(8) Section 22 empowers the Industrial Savings Board to test the safety and practicability of making small and short-time loans to farmers and other producers, when the balance due postal-savings depositors shall have reached $1,000,000,000. A detailed plan for handling such loans is outlined, including the approval or rejection of loans by commissions elected by the applicants for loans and by the postal-savings depositors holding registered certificates.

(9) Thus it will be seen that all present and future postal-savings deposits, except an undetermined working balance, are to be put out in various loans and investments. This means that depositary banks numbering over 5,000, which have expended millions of dollars for State, municiapl, and Government bonds to secure postal-savings deposits, must surrender the deposits and be left with depreciated collateral on their hands. But a more formidable objection arises. Postal-savings deposits are by law withdrawable on demand, and the bill under consideration makes no change in this respect. The Post Office Department must, therefore, be prepared always to meet any and all demands for withdrawal. This would be impossible were funds loaned as required in the bill.

(10) Section 12 provides for the issuance to depositors of "certificates of deposit" as evidence of the Government's indebtedness to them. Principal and interest, compounded semiannually, will be paid on surrender of the certificates. No rate of interest is named in the bill and no authority is conferred for fixing a rate. If the omission is not an oversight, it was probably intended to continue the present rate of 2 per cent under the reservations of section 28. The certificates may be made out in the name of the depositor or in blank. If no name is written in the certificate, payment shall be to bearer. The certificates are issued as from Washington, D. C., and payable here, but "procurable or cashable through any post office or authorized bank." An additional form or certificate of deposit "shall be a registered certificate" issued in multiples of $100.

(11) "These certificates (meaning all certificates) shall not be legal tender nor in any way indicated as 'money,' but may pass from hand to hand by mutual agreement, as is done in the case of 'certified' or other bank checks."

(12) The bill proposes, therefore, the issuance of an indeterminate amount of interest-bearing obligations which may circulate as currency, since the Government is obligated to redeem them. These certificates will range in fixed denominations from $1 to $1,000, and are to be placed on sale at all post offices. Such a proposition, in my judgment, is impossible from a sound financial viewpoint.

(13) The form of the "certificate of deposit" is set forth in detail, leaving no latitude for administrative discretion. The matter of evidencing deposits was a very perplexing one in the early days of postal savings. The act of June 25, 1910, authorized the use of a pass book or "other device or devices in lieu of a pass book." Postmaster General Hitchcock appointed a committee to inquire into the merits of several devices whose adoption was urged by their promoters. A most careful study of the subject was made with the result that the present system of denominational certificates was adopted as the safest and most economical. The United States Bureau of Efficiency, which recently gave the subject of a change in the method of evidencing deposits careful consideration, could offer no desirable substitute. Mr. Charles Hall Davis, of Petersburg, Va., the inventor of a patented device for evidencing deposits, has been very persistent in the effort to get his device adopted. He presented it to the committee before referred to and has since urged it upon the different supervisory officers of the Postal Savings System. He has also sought congressional support. Former Congressman Howard of Georgia introduced a bill on April 2, 1917 (H. R. 154), looking to the reorganization of Postal Savings, which so completely described the Davis device that passage would have placed the Post Office Department at the mercy of the inventor. The bill under consideration contains some specifications regarding the "certificates of deposit" that might infringe upon the rights of private patentees. It would be entirely unwise for Congress to require the adoption of any particular device which might entail unwarranted expense or involve the Post Office Department in litigation.

(14) Authorizing the payment of certificates of deposit at any post office would completely break down our system of identification, which has proved of inestimable value to the Government as well as to depositors, and throw open the door to frauds and losses.

(15) We are issuing and paying millions of certificates annually. More than 80 per cent of the total postal savings deposits are owned by foreign-born citizens, chiefly of the laboring classes. Thousands of them can neither speak English nor sign their names legibly. This necessitated the working out of a complete system for identifying depositors. A card is kept for each depositor at the post office where his account is opened and upon it appears, in addition to his signature, answers to a list of personal questions such as age, place of birth, occupation, christian names of father and mother, etc. It is impossible for post-office clerks in large cities to personally identify depositors and when withdrawal is attempted by an unknown party the postal clerk, by requiring a repetition of identification questions, determines whether he is the true depositor or an imposter. Of course, no identification would be possible if withdrawal were made at an office other than the one where the account was opened. Representatives of the savings bank section of the American Bankers Association who have looked into our system of identification pronounce it the most complete known. But r. still higher testimonial lies in the fact that no postal savings depositor has ever lost a cent on account of wrong payment.

(16) The Post Office Department is constantly called upon by depositors to duplicate their certificates which have been lost or stolen. This is done in perfect safety through our system of identification by stopping payment of originals at the office of issue. No provision is made in this bill for meeting such accidents, nor is any possible when certificates pass from hand to hand and are payable anywhere. So the unfortunate laborer who loses his certificate of deposit would be in the same plight as though he had lost currency.

(17) Section 13 authorizes the Secretary of the Treasury "to deposit any money in the Treasury, in the postal savings bank * * * as he does in other banks of deposit, and shall so far as practicable to do so, make disbursements from the Treasury in the form of certificates of deposit in the postal savings bank, provided this method is acceptable to payee." Section 14 empowers "all banks in the United States to deposit their funds in the postal savings bank, and certificates of deposit issued therefor may be counted as part of their legal reserve." These sections will be of particular interest to the Treasury Department and state banking commissioners.

(18) Section 15 requires that "at the county seat of every county in the United States," * * * and in such other cities as the Industrial Savings Board may select, post offices shall be designated by the Industrial Savings Board as postal savings banks of issue and redemption.

(19) There are approximately 3,000 counties in the United States. Many of the post offices at county seats are of the fourth class, with no adequate protection for any considerable amount of funds. The impracticability of designating such offices as postal banks for the purposes of this bill is at once apparent.

(20) County-seat banks will be required to issue and record certificates of deposit in exchange for bankable funds "and may redeem the same, whether issued by itself or by other similar banks of issue and redemption, either in money or in new certificates of deposit, as the applicant may desire." These banks are to supply "minor post offices in their region and letter carriers with facilities for doing postal savings business." Necessary security may be required from parties handling funds of the bank.

(21) A careful analysis of the localities that produce postal savings deposits shows that the amount of business done in rural communities is almost nothing in comparison with the volume done in manufacturing and mining centers where foreign-born labor is largely employed. It would be impossible for the average county-seat post office to redeem certificates of deposit issued elsewhere unless a considerable deposit was advanced to it and again is presented the lack of protection against fire and theft.

(22) Section 16 provides that the Industrial Savings Board shall designate 12 or more districts covering the United States and that a district bank shall be organized at a central city in each district which shall act as a clearing and reserve bank for all the banks of issue and redemption (county-seat banks) in the district, "in accordance with rules and regulations of the Industrial Savings Board."

(23) Section 17 calls for the organization at Washington, D. C., of a national central postal savings bank, which shall act as a clearing house and reserve bank for the 12 district banks and which may have direct dealing with and oversight of all the county banks of issue and redemption. The terms of sections 16 and 17 are so general that comment upon them is impracticable.

(24) Section 18 provides that every "smaller" post office and every letter carrier may keep on hand limited amounts of certificates of deposit, secured from the local county banks of issue and redemption, to be given "to known applicants in exchange for bankable funds to be forwarded to the county bank." The smaller post offices and letter carriers may also redeem certificates of deposit "as they can conveniently." Bonds for the protection of the Government against misuse of funds or certificates may be required. It will be seen, therefore, that the plan is to have certificates on sale at every post office. This would be unwise, for the experience of postal savings has clearly demonstrated that there is absolutely no demand for the service in small rural communities. Moreover, the danger that would result from having certificates, transferable by delivery and payable anywhere, lying around small country post offices needs only to be mentioned to be appreciated.

(25) Section 19 runs as follows:

"That each county bank of issue and redemption and each district bank shall keep in hand such working balance as the Industrial Savings Board shall direct, the county banks forwarding any surplus to its district bank, and the district bank any surplus to the national central bank, and each of said banks shall make loans as authorized by the Industrial Savings Board, the county bank drawing for funds when deemed necessary on its district bank and the district bank drawing on the national central bank as the Industrial Savings Board may direct."

This section places a very important and, as I view it, impractical task upon county-seat post offices, styled in this bill "county banks of issue and redemption." It would be impossible for the postmasters at such offices to undertake the placing of loans in connection with their present duties. Furthermore, it could not be expected that any considerable number of them possess the business experience that the importance of the duty calls for.

(26) Section 20 divides responsibility for the issuance and redemption of certificates. It provides "that any existing savings bank or other banks in the United States," which submit to satisfactory examination and supervision of the Industrial Savings Board and are found to be in satisfactory standing, may be made agents for the postal savings bank to receive deposits and pay certificates "and shall be allowed a compensation for such services not to exceed 5 per cent of the net earnings of the deposits for which registered certificates (only) are issued, which said existing bank secures through its agency." Such an arrangement would lead to untold accounting difficulties and to a conflict of banking supervision as disastrous as it would be impracticable.

(27) Section 27 calls for the appropriation of $1,000,000 as an advance for necessary expenses in installing the proposed system. This amount is to be returned to the Treasury, with interest, when the profits of the service so admit. The scope of the bill would at best compel the employment of a large corps of clerks in Washington and in the field, entailing an entirely unwarranted outlay. The Postal Savings System is now thoroughly organized and is conducted at a minimum of expense. It meets every substantial demand of the public.

(28) The bill concludes with the following revolutionary provisions:

"SEC. 29. That to the extent that certificates of deposit in postal savings banks crowd out of use forms of paper money now in use, causing the depreciation of the market price of bonds of the United States used to secure their circulation below par, the Treasurer of the United States shall purchase or redeem such bonds of the United States bearing higher rate of interest and marketable at or above par."

(29) The debates in Congress, when the organic postal savings act was under consideration, indicate a fixed determination that deposits should be so disposed of that certain sections of the country would not be drained to the advantage of favored money centers. The end desired was plain, but a practical solution was difficult. Finally, it was decided that all postal savings funds, except a 5 per cent reserve for emergency purposes, shall be deposited at interest in banks, which qualify to accept them, in the very localities where the funds originate. This solution made postal savings possible at the time. Its fairness has found favor everywhere and its practicability has been thoroughly tested. This bill would entirely defeat the principle of localizing deposits.

Very respectfully,

A. M. DOCKERY,
Third Assistant Postmaster General.

(Following is reply of John B. Alden to statement of Third Assistant Postmaster General:)

To avoid multiplying words and make connection clear I number correspondingly the paragraphs of Mr. Dockery's report and of this reply:

(1) "Sweeping change." No change that I know of is proposed except as the Industrial Savings Act introduces the element of competition, for the benefit of its contemplated 80,000,000 or more depositors of money, and of small or large borrowers of money.

(2) "Large discretionary powers." Treatment of depositors and of borrowers is attempted by the law to be minutely, carefully, conservatively defined, only discretionary power being given such as is usually exercised by any bank board of directors. There will be no objection at all to any "sharply defined" powers that will benefit service.

(3) "All reasonable demands." Commercial banks universally, so far as I know, seek deposits without limit in amount. Why not the same privilege, if depositors desire, for the postal bank? Millions of thrifty, patriotic Americans want to know why.

(4) "Five per cent of all deposits in Treasury" without interest is the present law. The proposed law puts 25 per cent there, for the use of "Uncle Sam," at 3 per cent (as the writer advises) which goes to depositors, instead of 2 per cent as now. This fund in the Treasury would rapidly absorb the entire national debt, and would almost immediately put at a premium all bonds of the United States now outstanding other than a few 2 per cent bonds which would be redeemed at par.

(5) "Highest obtainable rate of interest, not over 5 per cent." Why should depositor's savings be loaned at 2¾ per cent when the market price for money, with unquestionable security, is from twice to three or five times 2¾ per cent?

(6) "Through any national or other bank." The entire funds of the nation thus become, in a most conservative way, one vast reservoir, on which any bank or person, offering adequate security, may draw, into which any may pour his savings, with certainty of availability when needed.

(8) The section here referred to is, as it states, tentative, suggestive, experimental—to encourage self help and cooperation—incidentally to stimulate existing banks to liberality toward savings bank patrons. This section is not at all essential to the general plan and could be omitted but may possibly be exceedingly helpful and surely can do no harm.

(9) "Surrender deposits—depreciated collateral on hand." On the contrary, such banks may increase their use of postal bank money many times over, the same collateral being perfectly good—only banks will have to pay the market price (less a liberal commission) instead of unjustly having it at less than half market price as now.

(10) "Withdrawaole on demand." Yes, almost the entire bankable funds of the nation are now "withdrawable on demand" and are never, in net results, "withdrawn"—over 40 billion dollars of such money in existing banks. "Tom" may "draw" but "Dick and Harry," all experience shows, put in more than Tom takes out, so that the balance is practically always increasing, instead of being "withdrawn." Furthermore, the new forms of "Certificates of deposit" are such that "payable on demand" is practically only a "form of words," because the certificate itself will be accepted by anybody the same as money, generally preferred to money because safer, preferred to gold itself because it earns its holder compound interest which gold, or so-called money, does not.

(13) "Latitude for administrative discretion." If the proposed form of certificates can be improved, by all means suggest the improvement. Some are of the opinion that "adminsitrative discretion" has in the past "emasculated" and "hamstrung" the present postal-bank law, preventing rather than inviting patronage. The proposed forms of certificates, as illustrated under the section describing them in the present hearing, will tend to approximately double the present resources of all banks by putting through the "turbine" vast financial power that now is wasted—"running over the dam."

"Might infringe rights of private patentees." The writer will undertake to "dodge" any such danger—but if that is unavoidable, perhaps "Uncle Sam is rich enough" to buy the patent in the interest of 80,000,000 or more postal-bank patrons.

(14) "System of identification." First, I reply: The industrial savings act undertakes to serve 80,000,000 or more intelligent Americans who don't need extra service of identification, instead of serving only a limited few ignorant foreigners who can't read, write, or speak English, and such millions of depositors will gladly "chip in" as taxpayers to "educate" the ignorant. If a few need "guardians," why may not such guardians be appointed—not everybody subjected to needless annoyance. Second: The act provides the protection and identification which is the universal custom with commercial banks, that of the written signatures of depositors who want that service; it goes further than is customary with banks by signature on the front of certificates serving to identify the indorsement on the back when passed.

(15–16) All this is abundantly answered in paragraph 14. Registered certificates of deposit are an additional protection and convenience for those who want them. The "more than 80 per cent foreign born" are not so stupid as one might infer from their treatment. Indeed, we do not fear to sell one of them a Victory bond without first requiring identifying answer to such irrelevant questions as "What was the maiden name of your wife's grandmother?" If one of them loses a nickel, or possibly even a $5 national-bank note or $10 Federal reserve note, he may have our sympathy and our free advice to be more careful next time, but the banks issuing those $5 and $10 notes are not called on to "make good" his loss—they are "in" that much and the poor "dago" is "out."

(17) Where and why the United States Treasury should deposit its funds, should surely be questions of profit and service for the Treasury, and of those with whom it deals, and no suggestions have been made of "discrimination" against Standard Oil, Wall Street, or other banks. If the postal savings bank earns and pays depositors 4 per cent, as it certainly would that, or more, under present conditions, the Treasury would receive that same per cent on its balance instead of half that or nothing, as has been customary.

(19) If there really are some county seats in the United States too poor to have need of postal savings bank service—too poor to be able to afford a fire or burglar proof safe—our proposed law of course wants amendment and "latitude for administrative discretion" (see paragraph 13) might be enlarged to cover this condition.

(25–26) "Untold accounting difficulties." Is there not something wrong with the telescope or microscope, which ever it is, through which these difficulties are being viewed? All these various populations actually exist and are now, in a way, being served by the post office—money orders are issued and paid, registered letters cared for, and the industrial savings act simply proposes to do more of it, better, less expensively, and have such accounting as is customary or as intelligent service demands. I protest that nothing is proposed that is not simple and feasible. Bank commissions on loans made, or on registered certificates of deposit made, are certainly as simple and easily taken care of as registered United States bonds with semiannual payment of interest.

(28) "A large corps of clerks in Washington." They certainly would be required. It is virtually a mathematical certainty that an unshackled postal savings bank would rapidly grow and soon attain to magnitude approximating, if not exceeding, the combined national-bank and Federal reserve systems, far more an ally with them than a competitor. Its field would not be like that of commercial banks; its work and methods would be infinitely less difficult and complicated. But its forty to fifty billions of deposits to rapidly grow toward twice that would warrant a "large corps of clerks." Its "first chief, second chief, and third chief," its real heads under the general oversight and advice of the President's Cabinet, would of course be men of caliber and experience, on a par with the heads of the Federal reserve bank, and such able assistants as the immense magnitude of business would warrant.

County banks of issue and redemption would more than double the importance of the county post office, and would warrant and demand better men than political figureheads—they should be, would be, men of large business, even banking, experience. The unshackled postal savings bank would be the "real thing," not the "make believe" we now have.

(29) "Certain sections of the country would not be drained." It certainly has turned out that way.

Note the details of how it works: A few ignorant timid people, mostly foreigners, are induced to part with their savings—assume for illustration the total is $20,000; they are allowed 2 per cent interest, only (market price for money 4½ to 7 or more); 5 per cent of all, $1,000, goes to the Treasury at Washington—no interest on this—Uncle Sam gets that much free; 95 per cent, or $19,000, is "divided up" among the local banks, which pay 2½ per cent interest.

"And they parted his garments [or the contents] among them." Hear again that voice from Golgotha: "They know not what they do."

It is incredible that honorable bankers need, or want, to make money that way. Incredible that the honorable Congress will allow the "do" to continue.

"Honesty is the best policy." "Godliness is profitable" in the economic sense, not less than in the religious sense. Give a "square deal" to the scores of millions of patriotic Americans, who are entitled to the service of an unshackeled postal savings bank.

JOHN B. ALDEN.

Senator STERLING. If there is nothing further to present, the subcommittee will adjourn at this time, to meet again at the call of the chairman.

(Thereupon, at 11.45 o'clock a. m., the subcommittee adjourned, to meet at the call of the chairman.)

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END OF
TITLE